



Annual Management Report

FISCAL YEAR 2019

ABOUT THIS REPORT

This Annual Management Report (AMR) focuses on the Corporation for National and Community Service's (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 on CNCS's website.¹

CNCS will produce with its FY 2021 Congressional Budget Justification an Annual Performance Report (APR), which provides an overall assessment of agency performance. CNCS will transmit this report to Congress in February 2020. Congressional Budget Justification reports can also be found on CNCS's website.²

These reports meet the 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).

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¹ <https://www.nationalservice.gov/about/budget-and-performance/performance-and-accountability-reports>

² The Administration only requested funding for an orderly CNCS shutdown in FY 2018 and FY 2019; therefore, the agency did not prepare performance information with these budgets. Prior year performance information is contained within CNCS budgets, which can be found at the referenced link.

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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Corporation for National and Community Service

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November 19, 2019

For the past quarter century, the Corporation for National and Community Service (CNCS) has leveraged our nation’s greatest resource—the American people—to improve lives and strengthen communities. Our agency engages AmeriCorps members and Senior Corps volunteers in results-driven service at more than 45,000 sites across the country to help Americans succeed in school, prepare for 21st century jobs, and rebuild their lives after addiction, homelessness, job loss, or natural disasters.

Our Fiscal Year 2019 Annual Management Report summarizes agency accomplishments and financial information in accordance with relevant federal guidance and laws. Our efforts this past year demonstrate continued commitments to effective programs, targeted investments, community impact, evidence-based approaches, and operational efficiency and accountability.

CNCS is 25 years old this year and, as noted by the Office of Inspector General (OIG) in several reports over recent years, a re-examination of our structure and functions – as well as a concerted effort to improve and modernize our operations and systems – is long overdue. Since I joined CNCS as Chief Executive Officer in 2018, I have made it my top priority to address long-standing issues in order to strengthen the foundation of our agency and national service.

CNCS’s Transformation and Sustainability Plan, which the agency launched in June 2018, is a set of goals to strengthen our agency, make our operations more sustainable, and increase our community impact. The plan includes initiatives to ensure our core operational functions are accountable and effective; make it easier for organizations and individuals to participate in our programs; prioritize evidence-based models; and align our workforce and workplaces to better serve our customers, meet evolving needs, and ensure efficient use of public funds.

Our progress on many of the Transformation and Sustainability Plan goals, as well as the work we still have to do, is reflected in this report. CNCS does not concur with certain findings in the audit reports – and we feel clean-up in the first year of our concerted effort to strengthen financial accounting operations has gone further than the report acknowledges; however, we are committed to working with the OIG to fully and appropriately address their findings.

250 E Street, SW
Washington, D.C. 20525
202-606-5000 | 800-942-2677 | NationalService.gov/contact-us



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Most importantly, in the last year CNCS made the decision to move to shared services for certain accounting, contracting, and human capital operations with the US Department of the Treasury's Administrative Resource Center. While that alone will not address all of the findings in the audit report, it will provide CNCS with a tested and compliant financial management system that meets federal accounting and cybersecurity requirements. In turn, that will position us to look ahead and focus our agency's limited resources on further strengthening our inputs and internal processes, rather than focusing backwards to make manual corrections as necessitated today by our outdated systems. We will count on the partnership with the OIG to ensure the focus of next year's financial audit positions us to migrate successfully to the shared service environment.

As CEO, my top priority remains making improvements to ensure the sustainability of national service. Our responsibility is too great and our mission is too important to not take these steps, which will help us better serve our customers, achieve our mission, and increase our positive impact in communities across the nation.

Sincerely,



Barbara Stewart
Chief Executive Officer
Corporation for National and Community Service

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MISSION AND ORGANIZATIONAL STRUCTURE

The Corporation for National and Community Service (CNCS) was established by the National and Community Service Trust Act of 1993. Its mission is to engage Americans of all ages and backgrounds in community-based service that improves lives, strengthens communities, and fosters civic engagement. CNCS achieves its mission through the administration of the national service programs AmeriCorps and Senior Corps.

CNCS's programs under AmeriCorps and Senior Corps are administered in varying ways. CNCS's AmeriCorps State and National program is run through a combination of efforts by CNCS and State Service Commissions. The State Service Commissions (located in 49 states, the District of Columbia, Guam, and Puerto Rico) administer CNCS's AmeriCorps State grant funds, which are awarded on both a competitive and formula basis. CNCS awards AmeriCorps National and Tribal grants and the Senior Corps RSVP program on a competitive basis. The Senior Corps Foster Grandparent and Senior Companion program grants are renewed annually. Lastly, the agency directly administers the AmeriCorps Volunteers in Service to America (VISTA) and AmeriCorps National Civilian Community Corps (NCCC) programs.

Program Accounts and Descriptions

Below and on the following pages are descriptions of each major CNCS program.

AmeriCorps State and National

AmeriCorps State and National provides funding to States, Territories, Tribes, and community-based organizations that leverage members who serve full or part-time on projects that align with certain priority areas including economic opportunity, education, healthy futures, and veterans and military families. This program supports organizations that see service as a solution to local and national challenges and create powerful member experiences that result in lifelong civic engagement.

AmeriCorps VISTA

AmeriCorps VISTA was created to support efforts to reduce poverty and build economic opportunity throughout the country. It accomplishes this goal primarily by providing full-time members to community organizations and public agencies where members serve as a catalyst for change, living and working alongside community members to meet our nation's most pressing challenges, build capacity for nonprofits, and advance local solutions.

AmeriCorps NCCC

AmeriCorps NCCC is a 10-month residential national service program for people ages 18–24. AmeriCorps NCCC members are deployed to address critical needs related to natural and other disasters, infrastructure improvement, energy conservation, and urban and rural development. Members mentor students, help keep at-risk youth engaged in school, construct and rehabilitate low-income housing, respond to natural disasters, clean up streams, help communities develop emergency plans, and address countless other local needs. AmeriCorps NCCC also administers the FEMA Corps program, a partnership with the Federal Emergency Management Agency to serve communities affected by disaster. This program also serves as a workforce preparation program to ensure the next generation of disaster services professionals have the skills necessary to take on future careers in the disaster services sector.

MISSION AND ORGANIZATIONAL STRUCTURE

State Service Commission Support Grants

Congress created CNCS in 1993 as a shared federal-state partnership with a central role for governors in designing and implementing national service through governor-appointed State Service Commissions. More than 1,000 private citizens serve as governor-appointed commissioners, leading and guiding national service efforts in their states by identifying local needs, directing federal and state resources, ensuring oversight and accountability, tracking performance and community impact, and leading citizen service efforts in their states and territories.

Senior Corps Foster Grandparent Program (FGP)

The Foster Grandparent Program is an intergenerational program first established in 1965 where volunteers help children in their communities develop academic and life skills critical to their development and future success. Low-income volunteers age 55 and over connect with opportunities to provide one-on-one mentoring, nurturing, and support to children with special or exceptional needs, or who are at an academic, social, or financial disadvantage. In return for their service, volunteers receive a small stipend of \$2.65 per hour.

Senior Corps Senior Companion Program (SCP)

The Senior Companion Program engages low-income volunteers, age 55 and over, in providing in-home support and friendship to adults who have difficulty with daily living tasks. They provide companionship and assistance with daily tasks such as shopping or paying bills and give respite to family caregivers. As a result, seniors are able to maintain their independence longer and live fuller lives. Volunteers serving in this program also receive a stipend of \$2.65 an hour.

Senior Corps RSVP

RSVP is one of America's largest volunteer networks for people 55 and older and engages the skills, talents, and experience of volunteers to meet a wide range of community needs. Volunteers recruit and manage other volunteers, mentor and tutor disadvantaged children, support workforce development by providing job readiness training, offer free tax preparation, help seniors live independently in their homes, help communities recover from disasters, and expand economic opportunities for veterans and their families.

Innovation, Demonstration, and Other Activities

Through its Call to Service initiatives, CNCS aims to engage more Americans in service to meet pressing community needs including the Martin Luther King, Jr. National Day of Service and the September 11th National Day of Service and Remembrance. In FY 2021, the nation will recognize the 20th anniversary of September 11th. This important anniversary will allow the agency to engage even larger amounts of volunteers than we have done in the past.

Volunteer Generation Fund

The Volunteer Generation Fund supports CNCS's mission to improve lives and strengthen communities by strengthening volunteer management practices across the country. This includes helping State Service Commissions broaden their volunteer base, more effectively recruit and retain volunteers, expand opportunity for those who serve, and increase their impact on community challenges.

Evaluation

CNCS's Office of Research and Evaluation coordinates the agency's learning agenda, which includes building its evidence base, and facilitating the use of evaluation to inform important

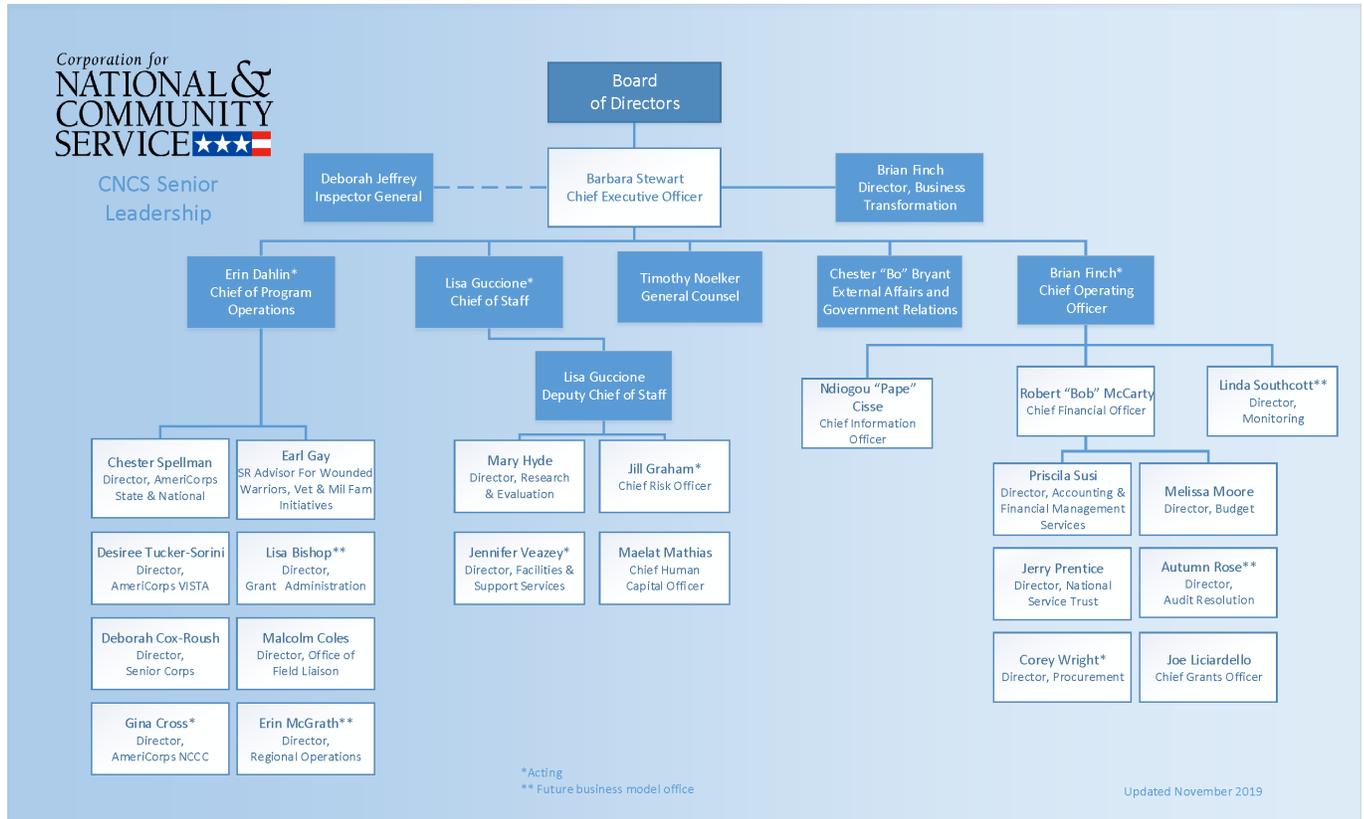
MISSION AND ORGANIZATIONAL STRUCTURE

decisions. To this end, the office conducts research and evaluation on CNCS service programs; helps build the capacity of agency-funded partners to conduct and understand evaluations; and facilitates evidence-based and evidence-informed grantmaking.

National Service Trust

The National Service Trust provides Education Awards for eligible AmeriCorps members who successfully complete their terms of service in an AmeriCorps program.

Organizational Chart



PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Priority 1: Strengthen Our Agency's Infrastructure and Operations

CNCS recognizes that it must strengthen its internal controls and modernize its capabilities and capacity in key operational areas in order to ensure the efficient and effective use of taxpayer funds. Historically, CNCS has underinvested in key operational areas – such as not maintaining and upgrading its financial system consistent with federal requirements, which has resulted in CNCS's inability to complete key financial reports, including our quarterly financial statements, without external validation and significant manual corrections and adjustments.

Additionally, the agency recognized a need to take action to increase grantee compliance with statutorily-required National Service Criminal History Checks.

In FY 2019, CNCS prioritized investment in these areas to strengthen the agency's infrastructure. Toward these ends, CNCS set out to accomplish several objectives in FY 2019, including:

Objective 1.1: Modernize CNCS's core financial management systems

Strategy:

- Explore options for upgrading or migrating legacy financial systems, including initiating an in-depth analysis of customer requirements and available services to bring our processes into the 21st century.

Results:

- Following a nine-month discovery phase and evaluation of options, CNCS made the decision in June 2019 to enter into a shared services agreement with the Administrative Resource Center (ARC) within Department of Treasury. The shared service agreement with ARC will cover certain accounting, procurement, and human capital functions. This change will improve regulatory compliance, strengthen consistency and reliability of services, and enhance cost-efficiency.
- In September 2019, CNCS launched the planning process for migrating certain accounting and procurement functions to the Department of Treasury's core financial system. This includes data migration from CNCS's Momentum and PRISM IT platforms to ARC's Oracle and PRISM IT platforms.

Objective 1.2: Help grantees eliminate barriers to compliance with National Service Criminal History Check (NSCHC) requirements

Strategy:

Launch new tools and policies and approve an external vendor to reduce burden for grantees to obtain compliant National Sex Offender Public Website (NSOPW) and state criminal history checks.

Results:

- In November 2018, CNCS launched a vendor tool for grantees to use and streamline the process to conduct compliant NSOPW and state checks. This new vendor complemented the existing vendor that has been in place to conduct FBI checks. As of September 2019, more than 1,900 accounts were established with the vendor and more than 90,000 NSOPW and state criminal history checks have been performed.
- A preliminary analysis of the agency's FY 2019 IPERIA test transactions shows that the agency's improper payment rates would have dropped by 40-53% across all four of its susceptible programs had the newly approved vendor been fully in place during the FY 2019 IPERIA testing cycle. (Further details are provided in the Payment Integrity section of this report.)

Priority 2: Increase Community Impact

CNCS is committed to improving lives and strengthening communities through service and volunteering by empowering citizens to solve local problems, expand economic opportunity, and encourage personal responsibility. Based on principles of local control, competition, accountability, and public-private partnership, CNCS investments provide vital services to communities and generates dividends that far exceed the original investment. Through strategic and evidence-based grantmaking, we partner with thousands of nonprofit organizations, faith-based groups, schools, and local governments to solve tough problems and meet local needs.

In FY 2019, CNCS supported approximately 280,000 program participants serving both AmeriCorps and Senior Corps in 45,000 service locations across the nation. These members supported key focus areas: Education, Healthy Futures (prioritizing investments to address the opioid epidemic), Veterans and Military Families, Disaster Relief, Economic Opportunity and the Environment.

CNCS also continued to invest in initiatives that demonstrate how national service helps communities solve challenges across the nation, including Administration priorities, such as workforce development, by helping community members who receive services from AmeriCorps members and Senior Corps volunteers connect to jobs, and by helping AmeriCorps members transition to employment after they serve. Each full-time AmeriCorps member that successfully completes their term of service earns a Segal Education Award of nearly \$6,000 to pay for further education or help repay student loan debt.

CNCS programs also help communities recover from natural disasters, assisting with volunteer and donations management, disaster survivor assistance, operations and logistics support, home repair and restoration, and much more. In FY 2018 and 2019, CNCS deployed nearly 6,000 AmeriCorps and Senior Corps members in direct response to Hurricanes Harvey, Irma, Maria, Michael, and Florence.

The agency also continued to direct more resources into projects that use an evidence-based intervention model, prioritizing investments that have proven success.

Objective 2.1: Expand priority Education and Healthy Futures initiatives while continuing to support projects and participants in other agency focus areas that help strengthen communities across the country

Key Strategies:

- Prioritize new or expanded awards aligned with this objective
- Prioritize AmeriCorps State and National funding to service models with evidence of effectiveness

Results:

Student Academic Success

CNCS continues to invest in projects that help students make progress toward their education goals, supporting program interventions that focus on attendance, behavior, and course support to both keep kids in school and support their academic achievement, up to and including helping them graduate from high school. In FY 2019, AmeriCorps projects supported an estimated 485,000 students achieve academic success.³

Studies continue to show that there is a strong relationship between Americans' academic and financial success. According to the Bureau of Labor Statistics, those with a high school diploma have 37 percent more weekly median earnings compared with those who do not have a degree.⁴ The former group is nearly 2 percentage points less likely to be unemployed.

Other models used to increase student achievement include one-on-one tutoring, afterschool programs, mentoring, and activities that support grade-level skill acquisition for kids, such as reading and math outcomes that are tied to expected grade level achievement.

Opioids

Our nation is in the midst of an unprecedented opioid epidemic. This growing crisis is causing devastating effects on families, workplaces, the health care system, and communities. According to data from the Centers for Disease Control, in 2017, nearly 50,000 Americans died of opioid-involved causes – six times higher than in 1999. The Center reports that on average 130 Americans die every day from opioid abuse.⁵

In response, and in support of the Office of National Drug Control Policy, CNCS is increasing resources to projects that fight this epidemic. For example, in FY 2019, hundreds of Senior Corps Volunteers participated in episodic activities such as prescription drug take back events and distribution of drug prevention information to fight the opioid epidemic. AmeriCorps and Senior

³ CNCS FY 2019 awardee data will not be fully submitted and reviewed until early CY 2020. The agency will report updated results in its FY 2020 Annual Management Report.

⁴ <https://www.bls.gov/careeroutlook/2018/data-on-display/education-pays.htm>

⁵ <https://www.cdc.gov/drugoverdose/epidemic/index.html>

PERFORMANCE GOALS, OBJECTIVES AND RESULTS

Corps are on the forefront of taking action to prevent and reduce opioid abuse. In FY 2019, an estimated 2,300 AmeriCorps and Senior Corps volunteers served in opioid-related projects.⁶

Independent Living

According to recent Census information, America is aging such that by 2030, nearly one in five residents will be retirement age. As the country's demographics change, Senior Corps and AmeriCorps volunteers are helping to combat issues of depression and social isolation in seniors throughout the nation. In FY 2019, hundreds of thousands of Americans across the nation received independent living support from CNCS programs. CNCS programs have demonstrated that volunteering decreases feelings of isolation and proves as a cost-effective way for America to help support seniors as they help support their peers.

Research suggests that seniors who remain in their homes and engage in their communities as they age are happier and healthier than those who do not. For example, CNCS's 2017 Evidence Report found that nearly half of new Senior Corps volunteers report improvements in health and well-being after just one year. Sixty-three percent of those who often felt alone reported decreased feelings of isolation. In FY 2019, an estimated 379,400 individuals received independent living support from AmeriCorps and Senior Corps programs.⁷

Member Experience

CNCS members are its most important partners – they provide the boots on the ground to help communities address the priorities mentioned earlier and many more. Therefore, the agency remains keenly focused on members' experience, which CNCS tracks through an annual survey.

Our annual survey focuses on questions that gauge member satisfaction, learning, and skill acquisition among other items. In FY 2019, an estimated 89% of AmeriCorps members reported satisfaction with the service experience.⁸

Objective 2.2: Expand the development and use of evidence to inform business decisions

In FY 2019, CNCS continued to invest in activities that build knowledge about what works in national service and how the agency can help make it work for more Americans. Below is a high-level overview of strategies and results accomplished in FY 2019.

Strategies:

- Continue implementing CNCS's Evidence Plan
- Increase funding to awards with moderate or strong evidence.

Results:

Below are important evidence-building activities CNCS undertook in FY 2019.

⁶ CNCS FY 2019 awardee data will not be fully submitted and reviewed until early CY 2020. The agency will report updated results in its FY 2020 Annual Management Report.

⁷ CNCS FY 2019 awardee data will not be fully submitted and reviewed until early CY 2020. The agency will report updated results in its FY 2020 Annual Management Report.

⁸ CNCS FY 2019 awardee data will not be fully submitted and reviewed until early CY 2020. The agency will report updated results in its FY 2020 Annual Management Report.

PERFORMANCE GOALS, OBJECTIVES AND RESULTS

- Continued to assess CNCS's Annual Member Exit Survey – performed standard data analyses and reporting, customized data analyses and reporting, and updated the public data set for sharing.
- Completed a 50-year Senior Corps research review to inform the implementation of a new research agenda in FY 2021, including the administration of another longitudinal study of health outcomes for senior volunteers. Further details about the report released in 2019 is on our [website](#).
- Awarded a contract to initiate planning for up to four analyses, and it is anticipated that additional acquisition planning will take place in FY 2020 and FY 2021 to build on FY 2019 findings. The contractor will perform a targeted return on investment analysis/cost effectiveness of national service programs. For AmeriCorps, the focus will be on education and disaster response interventions. For Senior Corps, the focus will be on the Senior Companion Program.
- Awarded a multi-year contract for four studies to formally evaluate AmeriCorps National Civilian Community Corps and its ability to retain members, develop civic leaders, and impact the communities they serve.

Objective Progress:

In FY 2019, CNCS developed its new [Strategic Evidence Plan](#) that will guide the agency's learning agenda and help inform its business decisions.⁹ This plan and related activities build on efforts to date that show national service positively affects those who serve and the communities they serve in. As CNCS builds on the growing body of evidence for national service success, the agency continues to use this evidence to inform core business decisions such as grant awards. In FY 2019, an estimated 41% of AmeriCorps competitive funds supported awards with moderate or strong evidence.¹⁰ Some examples of this impact are presented on the [Evidence Exchange](#).

⁹ CNCS's Strategic Evidence plan can be found at <https://www.nationalservice.gov/documents/2019/new-cnccs-strategic-evidence-plan>.

¹⁰ New, competitive AmeriCorps State and National grants.

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

The accompanying FY 2019 financial statements have been prepared in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards and with Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements.

Table of Key Measures (in thousands)

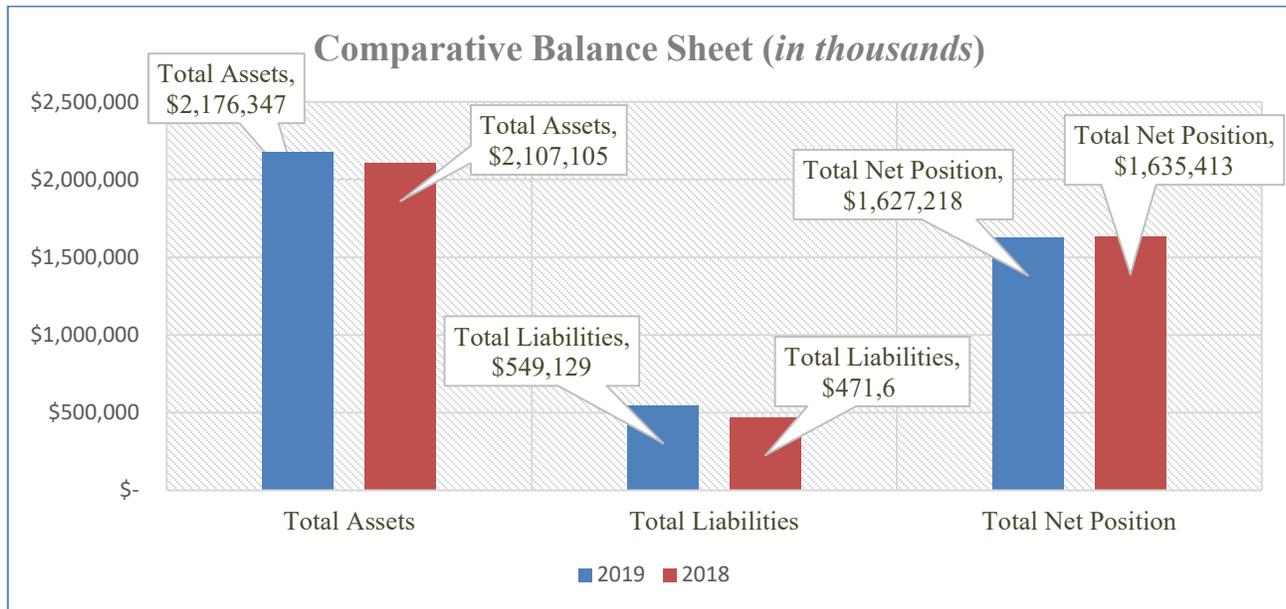
Balance Sheet: Summary of Data	Unaudited 2019	Unaudited Restated 2018	Percent Change
Fund Balance with Treasury	\$ 1,346,606	\$ 1,210,560	11%
Investments and Related Receivables	756,080	792,816	-5%
Accounts Receivable, Net	4,512	8,602	-48%
Cash and Other Monetary Assets	4	25	-86%
Advances to Others	68,777	66,662	3%
Property and Equipment, Net	368	28,440	-99%
Total Assets	\$ 2,176,347	\$ 2,107,105	3%
Accounts Payable	\$ 26,694	\$ 482	5473%
Other Liabilities	15,488	15,338	3%
Advances from Others	8,981	13,611	-37%
Trust Service Award Liability	375,834	304,320	23%
Grants Payable	115,316	130,773	-12%
Actuarial FECA Liability	6,817	7,168	-5%
Total Liabilities	549,129	471,693	16%
Total Net Position	1,627,218	1,635,413	0%
Total Liabilities and Net Position	\$ 2,176,347	\$ 2,107,105	3%

Statement of Net Cost: Summary of Data	Unaudited 2019	Unaudited Restated 2018	Percent Change
Gross Costs	\$ 1,120,530	\$ 948,886	18%
Less: Earned revenue	(52,980)	(52,346)	2%
Net Cost of Operations	\$ 1,067,550	\$ 896,540	19%

Statement of Budgetary Resources: Summary of Data	Unaudited 2018	Unaudited Restated 2017	Percent Change
Unobligated Balance from prior year budget authority, net (discretionary and mandatory)	\$ 513,568	\$ 323,904	59%
Appropriations (discretionary and mandatory)	1,167,924	1,284,042	-9%
Spending authority from offsetting collections (discretionary and mandatory)	31,522	40,084	-21%
Total Budgetary resources	\$ 1,713,014	\$ 1,648,030	4%

The Balance Sheet provides an overview of CNCS's financial position at the end of the fiscal year. The statement displays the current and future economic benefits owed or available for use (assets), amounts owed (liabilities) and the residual amount (net position) at September 30th.

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

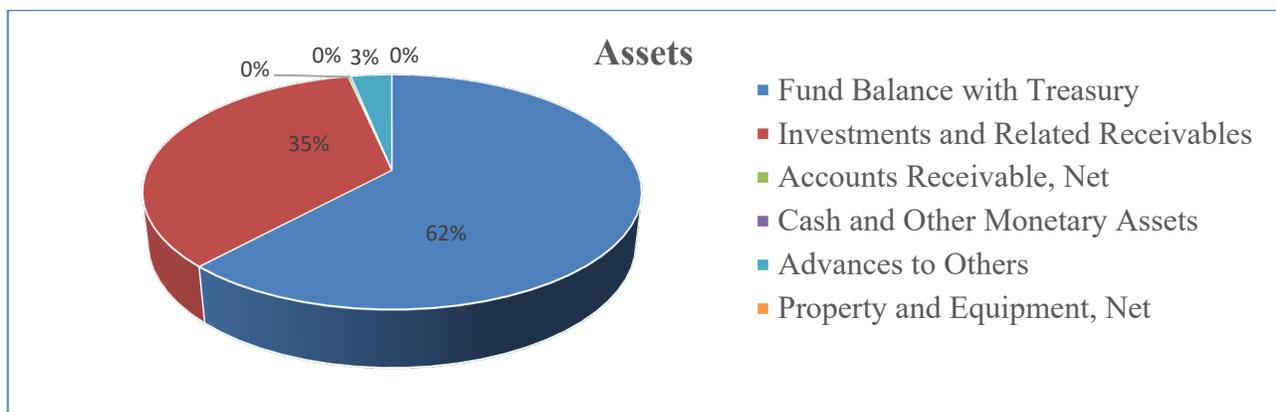


Assets

At the end of FY 2019 and 2018, CNCS had \$2.10 billion and \$2.01 billion in assets, respectively. Fund Balance with Treasury (FBWT) and Investments in Securities formed majority of the assets. The Balance Sheet also identifies governmental and non-governmental activities.

Fund Balance with Treasury: FBWT is the largest asset class, representing 62% of total assets. FBWT increased by \$136 million in FY 2019 due primarily to the sale of treasury securities to cover the temporary rescission on the National Service Trust fund and due to an increase in appropriated funds.

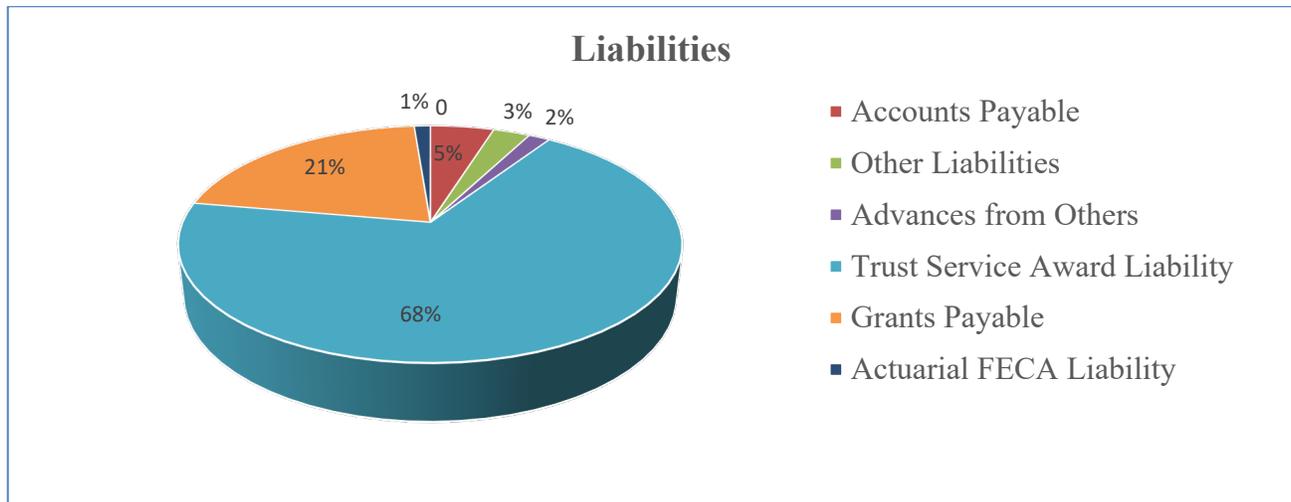
Investments: Investment is 35% of total assets and that makes it the second largest class. Funding for the Trust investments comes from appropriations, interest earned, sponsorships and proceeds from the sale or redemptions of investments. In FY 2019, there was a \$37 million decrease in investment due primarily to the sale of Treasury bills.



Liabilities

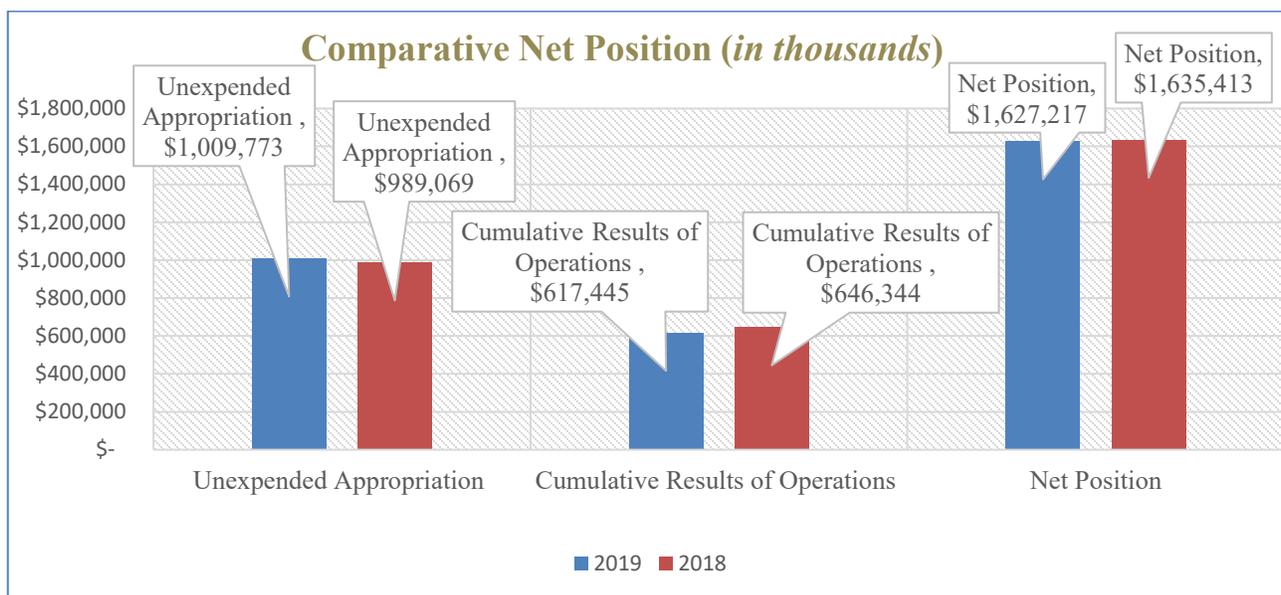
ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

CNCS liabilities, or amounts owed were \$549 million and \$472 million for the fiscal years ended 2019 and 2018, respectively. The majority of the liabilities are \$375 million in Trust Service award and \$115 million in Grants payable. The Trust Service Award Liability represents estimates of unpaid and earned education award and interest forbearance costs that are likely to be paid. The Grants payables on the other hand represent funds due to grantees for performance under a grant.



Net Position

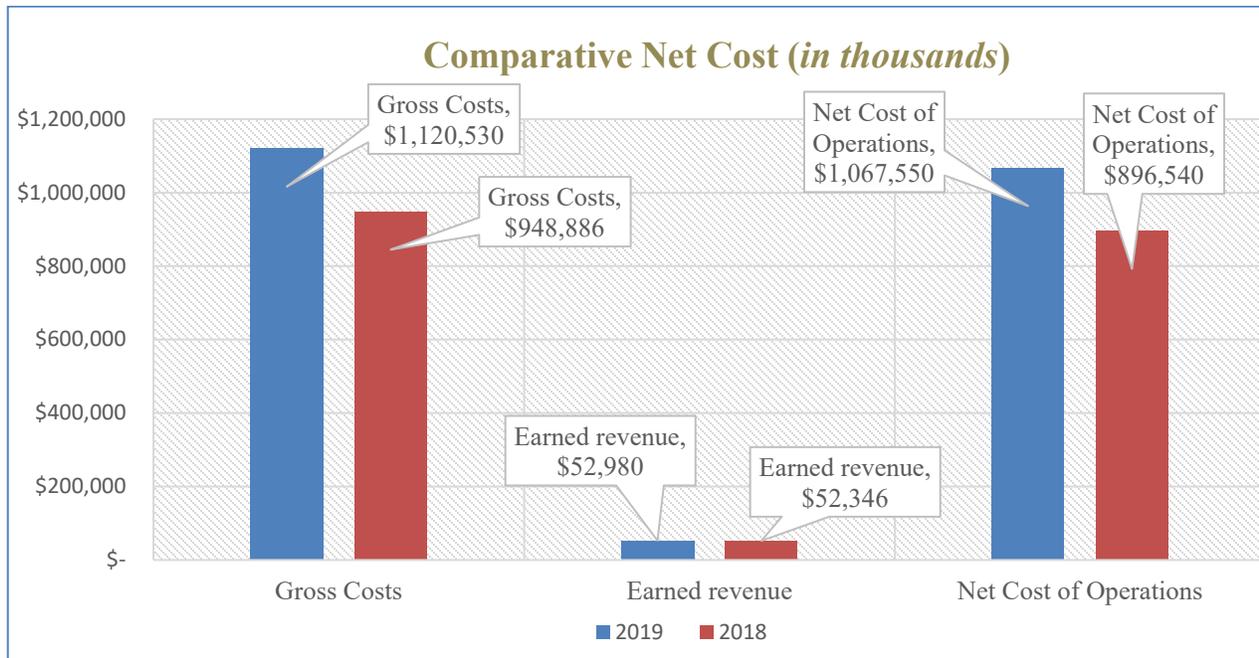
CNCS Net Position is the difference between assets and liabilities. Changes in Net Position result from changes in the cumulative results of operations. In FY 2019, there was a \$29 million decrease in cumulative results of operations which was mostly caused by the write off capitalized software in development in FY 2019.



Statement of Net Cost

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

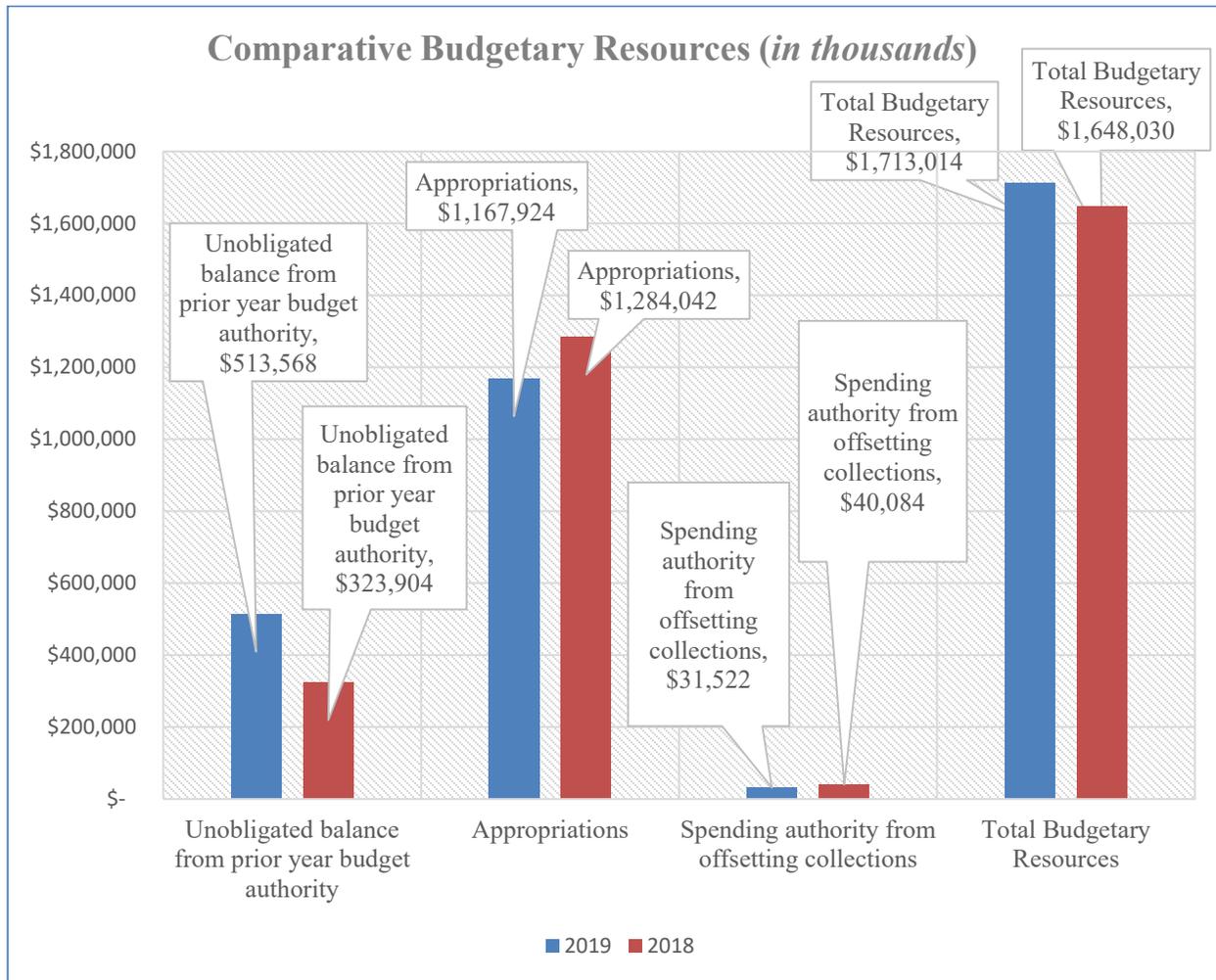
CNCS Statement of net cost measures the use of appropriated funds by programs (AmeriCorps VISTA, AmeriCorps NCCC, AmeriCorps State and National, Senior Corps) authorized by Congress. CNCS net cost for the period ending September 30, 2019 and 2018 were \$1,120 million and \$896 million, respectively. The 18% increase in operating cost in FY 2019 is mostly due to the increase in Trust service awards expense. AmeriCorps State and National is the largest contributor to the Agency’s overall cost of operations. The program cost includes grant expenses, direct and allocated personnel and administrative cost.



Statement of Budgetary Resources

The statement of budgetary resources represents CNCS’s budgetary resources, which comes from unobligated balances from prior-year appropriations, new appropriations, and limited receipts from other sources (such as collections of disallowed costs from grantees) at the end of the reporting fiscal year. In FY 2019, CNCS had a \$116 million decrease in appropriations received from Congress compared to FY 2018.

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION



ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Corporation for National and Community Service

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FY2019 Annual Assurance Statement

The Corporation for National and Community Service (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 the assessment, the CNCS can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2019, except for the material weaknesses reported below. To address these material weaknesses and also tackle the agency's most critical organizational challenges, my leadership team is implementing a Transformation and Sustainability Plan that has as its top priority strengthening and improving accounting operations and financial systems. I am happy to share that CNCS will soon join over 100 other government agencies in the shared service provision of accounting operations, contracting and human capital with the US Department of the Treasury Administrative Resource Center (ARC). In addition, the enhanced monitoring provided by the agency's Internal Controls Program will provide the leadership with the risk information needed evaluate the remediation of those material weaknesses. I look forward to sharing updates with you in our next Annual Management Report.

A handwritten signature in black ink that reads "Barbara Stewart". The signature is written in a cursive, flowing style.

Barbara Stewart
Chief Executive Officer

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



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Material Weaknesses

Audit Area	NFR #	Description of Material Weakness	First Year Reported
Financial Reporting**	19-11	CNCS continued to rely mainly on preparing SVs and JVs to correct financial reporting issues instead of fixing the root causes of its accounting system limitations and ineffective financial reporting internal controls.	2018
	19-12	Financial Statements were not prepared in accordance with generally accepted accounting principles (GAAP) and OMB Circular A-136, Financial Reporting Requirements.	2017
Trust Obligation and Liability Model (TOLM)*	19-9	The control environment for estimation of the Trust Obligations and the TSAL remains weak and prone to errors.	2017
Grants Accrual Payable and Advances*	19-3	CNCS did not include Incurred But Not Report (IBNR) costs in its grant accrual estimate nor provide supporting documentation as to why IBNR costs should not be included the grant accrual estimate.	2017
Accounts Payable and Undelivered Orders – Procurement*	19-13	CNCS did not support the inputs used in the AP accrual estimation including materiality levels used and the quarters selected.	2018
Property & Equipment*	19-7	Costs were not capitalized in accordance with GAAP at June 30, 2019, including Tenant Improvement Costs.	2018
Undelivered Orders (Grant)**	19-14	<ol style="list-style-type: none"> For some of the grant award selected for substantive testing, the difference between the NGA’s award amount and the Payment Management System (PMS) grant expenditures did not agree with the Undelivered Order (UDO) amount recorded in General Ledger (GL). The total grant award amount recorded in Momentum and/or the PMS did not agree to the total grant award amount from the most recent NGA as of 6/30/19. Grant expenditures from the PMS did not agree to the recorded expenditures in Momentum. Grants remained current for more than one year after the end of their period of performance. Transaction definition used to record grant expenditures is not consistent with the United States Standard General Ledger (USSGL) transaction. 	2018
Prior Year Recoveries***	19-6	CNCS did not provide supporting documentation for de-obligations for active grants and contracts.	2018
Other Liabilities	19-10	CNCS did not review and validate the balances reported in its beginning balance as of June 30, 2019.	2018

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



Internal Control Program (FMFIA)**	19-15	In FY 2019, CNCS's system of internal control did not meet Federal requirements or operate effectively. The system of internal controls failed to identify number of pervasive material weaknesses that we found in financial reporting and in specific material line items on the financial statements.	2018
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* CNCS Internal Control Program identified a material weakness in this process
 ** CNCS Internal Control Program identified a significant deficiency in this process
 *** CNCS Internal Control Program identified the lack of supporting documentation for contracts as a material weakness and grants as a significant deficiency.

FINANCIAL SECTION

Message from the Chief Financial Officer

Corporation for National and Community Service
NationalService.gov



November 19, 2019

I am pleased to join CNCS’s CEO in presenting the agency’s FY 2019 Annual Management Report, which provides a snapshot of our support to the many volunteers, staff, and stakeholders who help positively transform lives and strengthen communities across the nation.

In FY 2019, CNCS continued to implement objectives aligned with the [President’s Management Agenda](#) and the agency’s Transformation and Sustainability Plan, while addressing concerns raised in the prior year’s Independent Auditor’s Report.

In the past year, the agency began to implement a transition to shared services for accounting, procurement, travel, and human capital functions with the Department of Treasury’s Administrative Resource Center. This partnership will provide a proven foundation on which to strengthen and enhance CNCS’s core financial processes. It also advances the Administration goal to share quality services.

Last year, the agency also launched new tools and related processes to strengthen grantee accountability and compliance with the important criminal history check process. This effort will help reduce grantee burden as well as reduce the incidence of improper payments.

The actions highlighted above and throughout this report will help CNCS continue to deliver on its mission and mitigate challenges identified in this year’s Independent Auditor’s Report. Additional information on the steps the agency has taken to address audit concerns can be found in this report’s Management Response.

In closing, I would like to recognize all the Operations staff – those who put in the extra effort to help a volunteer or member serve or to make timely grant awards – who make CNCS’s execution of its mission possible. Our financial and operations teams are an often-forgotten cornerstone of national service who get things done for America.



Robert McCarty
Chief Financial Officer
Corporation for National and Community Service

250 E Street, SW
Washington, D.C. 20525
202-606-5000 | 800-942-2677 | NationalService.gov/contact-us



Independent Auditors' Report on Consolidated Financial Statements

**CORPORATION FOR NATIONAL
& COMMUNITY SERVICE**

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE CORPORATION FOR
NATIONAL AND COMMUNITY SERVICE'S
FISCAL YEAR 2019
CONSOLIDATED FINANCIAL STATEMENTS

OIG Report 20-01

Prepared by:

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



This report was issued to Corporation management on November 20, 2019. 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 20, 2020, and complete its corrective actions by November 20, 2020. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



November 20, 2019

MEMORANDUM TO: Barbara Stewart
Chief Executive Officer

FROM: Monique P. Colter /s/
Assistant Inspector General for Audit

SUBJECT: Audit of the Corporation for National and Community Service's
Fiscal Year 2019 Consolidated Financial Statements, OIG Report
20-01

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, 2019, and for the year then ended. The contract required that the audit be performed in accordance with the United States generally accepted government auditing standards and applicable Office of Management and Budget audit guidance. In its audit of the fiscal year 2019 CNCS consolidated financial statements, CLA reported:

- **Disclaimer of Opinion:** CNCS was unable to provide adequate evidential matter to support a significant number of transactions and account balances due to inadequate processes and controls to support transactions and estimates, and inadequate 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.
- **Nine material weaknesses and two significant deficiencies** in CNCS's internal control over financial reporting. These issues included:
 - **Material Weaknesses:**
 1. Internal Controls Program;
 2. Financial System and Reporting;
 3. Trust Obligations and Liability Model;
 4. Grants Accrual Payable and Advances;
 5. Undelivered Orders and Accounts Payable - Procurement;
 6. Property and Equipment;
 7. Undelivered Orders - Grants;
 8. Recoveries of Prior Year Obligations; and
 9. Other Liabilities.

- Significant Deficiencies:
 1. Information Technology Security Controls; and
 2. Accounts Receivable and Allowance for Doubtful Accounts.
- CLA performed applicable tests of CNCS's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts and disclosures. CLA noted Single Audit Compliance as an instance of noncompliance that is required to be reported.

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

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

CLA is responsible for the attached independent auditors' report, dated November 7, 2019, and the conclusions expressed therein. However, our review disclosed no instances where CLA did not comply, in all material respects, with the United States generally accepted government auditing standards.

As Stated,

cc: Lisa Guccione, Chief of Staff
Timothy Noelker, General Counsel
Brian Finch, Acting Chief Operating Officer
Robert McCarty, Chief Financial Officer
Dr. Pape Cissé, Chief Information Officer
Jill Graham, Acting Chief Risk Officer
Rachel Turner, Audits and Investigations Program Manager
Mia Leswing, Principal-in-Charge, CliftonLarsonAllen LLP



CliftonLarsonAllen LLP
CLAconnect.com

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 balance sheet as of September 30, 2019, the consolidated statement of net cost and changes in net position, the combined statement of budgetary resources, for the year then ended, and the related notes to the consolidated financial statements (referred to herein as consolidated financial statements).

Management's Responsibility for the Financial Statements

CNCS management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on conducting the audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 19-03). 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 on the consolidated financial statements.

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 consolidated financial statements as of and for the year ended September 30, 2019, due to inadequate processes and



INDEPENDENT AUDITORS' REPORT (Continued)

controls to support transactions and estimates, and inadequate records to support accounting for transactions in accordance with the U.S. generally accepted accounting principles.

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 on the consolidated financial statements of the Corporation for National and Community Service. Accordingly, we do not express an opinion on the consolidated financial statements.

Emphasis of Matter

As discussed in Note 1B to the consolidated financial statements, CNCS is presenting a single year financial statements in FY 2019 instead of comparative financial statements, which is required in the applicable guidance from Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. Our opinion is not modified with respect to this matter.

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 consolidated 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of CNCS's internal control. Accordingly, we do not express an opinion on the effectiveness of CNCS's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA).

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

prevented, or detected and corrected on a timely basis. We consider the deficiencies in the areas below, and described in Exhibit A to be material weaknesses.

1. Internal Controls Program (FMFIA)
2. Financial System and Reporting
3. Trust Obligations and Liability Model (reported in the prior year as two material weaknesses - Trust Fund Unpaid Obligations and Trust Service Award Liability)
4. Grants Accrual Payable and Advances
5. Undelivered Orders and Accounts Payable - Procurement
6. Property and Equipment
7. Undelivered Orders - Grants
8. Recoveries of Prior Year Obligations
9. Other Liabilities

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

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

Also, as required by OMB Bulletin No. 19-03, we compared the material weaknesses disclosed during the audit with those material weaknesses reported in CNCS's FMFIA report that relate to financial reporting. We identified the following material weaknesses that were not disclosed by CNCS in its FMFIA report:

- Material weakness number 1- Internal Controls Programs
- Material weakness number 2- Financial System and Reporting
- Material weakness number 7- Undelivered Orders - Grants
- Material weakness number 8- Recoveries of Prior Year Obligations
- Material weakness number 9- Other Liabilities

We consider CNCS's failure to detect and report material weaknesses a material weakness in CNCS's internal control.

Had we been able to obtain sufficient appropriate audit evidence to express an opinion on the consolidated 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

As part of obtaining reasonable assurance about whether CNCS's consolidated financial statements are free from material misstatement, we performed tests of its compliance with

INDEPENDENT AUDITORS' REPORT (Continued)

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.

The results of our tests disclosed instances of noncompliance or other matters, described below and in Exhibit C, that are required to be reported in accordance with Government Auditing Standards.

Management's Responsibility for Internal Control and Compliance

CNCS management is responsible for (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error, (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

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

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

CNCS's Response

CNCS, in its response to the draft audit report, included in Exhibit D, did not comment on all findings except a general comment that "AFMS discovered and corrected errors that are nevertheless included as findings in the report" and a non-concurrence "with the auditor's conclusion that CNCS should include the early, start-up years of the National Service Trust in its projections of future liabilities. CNCS believes its analysis based on more current trends is well-supported and yields more accurate results." CNCS stated that it will incorporate CliftonLarsonAllen's (CLA's) recommendations "where appropriate," without elaboration.

INDEPENDENT AUDITORS' REPORT (Continued)

Auditors' Response

With one exception, CNCS did not respond to the specific findings in the audit report, making further auditor comment unnecessary. With respect to the National Service Trust, CNCS's response takes issue with a "conclusion" that the audit report does not contain. Instead, CLA noted that particular assumptions that were omitted from the Trust liability model could have a significant impact on the accuracy of the estimated liability and the sufficiency of the amounts obligated and available to pay those liabilities when due. The issue is unrelated to the inclusion of "early, start-up years" in the Trust model.

Status of Prior Year Findings

The status of findings in prior year Independent Auditors' Report, dated November 5, 2018, is included in Exhibit E.

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 7, 2019

EXHIBIT A
Material Weaknesses

1. Internal Controls Program (modified repeat material weakness)

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

In Fiscal Year (FY) 2019, CNCS closed out four prior-year recommendations and implemented certain corrective actions to improve its system of internal control. However, even with the corrective actions, the system of internal control was not effective. It failed to identify a number of pervasive material weaknesses that we found in financial reporting and in specific material line items on the financial statements.

Internal control deficiencies included:

- CNCS's internal control program failed to identify the following five material weaknesses in its Chief Executive Officer's (CEO's) assurance statement that we reported in both FYs 2018 and 2019 financial statements audit results:
 - Material weakness number 1- Internal Controls Programs¹
 - Material weakness number 2- Financial System and Reporting²
 - Material weakness number 7- Undelivered Orders - Grants³
 - Material weakness number 8- Recoveries of Prior Year Obligations
 - Material weakness number 9- Other Liabilities
- CNCS's internal control program designated the following two material weaknesses, but with insufficient justifications:

¹ CNCS reported this area as a significant deficiency. CNCS's justification only covers the untimely assessment of internal controls to allow control owners to correct deficiencies prior to fiscal year end date. It did not address other prior-year findings.

² CNCS only reported this area as a significant deficiency. CNCS did not consider the material weakness findings from the prior year's financial statement audit.

³ CNCS did not report material weakness on undelivered orders related to grants and disregarded the material weakness findings on undelivered orders related to grants from the prior year's financial statement audit.

EXHIBIT A
Material Weaknesses

- Material weakness number 4- Grants Accrual Payable and Advances⁴
- Material weakness number 6- Property and Equipment⁵
- CNCS's CEO assurance statement stated that CNCS could provide reasonable assurance that CNCS's internal control over operations, reporting and compliance was operating effectively as of September 30, 2019, except for the material weaknesses that CNCS identified. However, even for those material weaknesses that CNCS identified, CNCS did not address their potential impact on the financial statements or identify their root causes. In addition, CNCS did not provide us with evidence to support this modified assurance statement. Our review disclosed that the modified assurance statement was not justified by the results of CNCS's own internal control testing. The assurance statement may mislead stakeholders on the status of CNCS's internal controls over operations, reporting and compliance that could affect decisions impacting CNCS.
- CNCS did not effectively implement corrective action plans to remediate prior-year financial statement audit findings to resolve any of the ten material weaknesses⁶ and two significant deficiencies identified in last year's financial statement audit. All ten of those material weaknesses and two significant deficiencies persisted during FY 2019.
- CNCS's entity-level control assessment noted that the 17 entity-level control principles⁷ were rated low risk overall, with only five rated a medium risk. However, we found that the basis for some of the ratings was not fully supported by the documentation of CNCS's assessment, or inconsistent with the results of our findings. Directors of the functional offices participating in the entity-level control assessment did not have a full understanding of the internal control principles and how those principles relate to their operations. In addition, they did not consider outstanding audit recommendations related to their operations during the process of assessing entity-level controls.
- For those material weaknesses that CNCS identified, CNCS did not address the potential impact on the financial statements or identify the root cause for those deficiencies.
- CNCS identified financial reporting as a significant deficiency, although we have reported it as a material weakness since the FY 2017 audit.

⁴ CNCS's material weakness description did not cover the issue related to the omission of costs incurred but not reported in the grant accrual methodology, which impacts the Grants Payable and Advances to Others line items in the Balance Sheet.

⁵ CNCS's material weakness description did not identify the issue that it did not properly record and account for capitalized tenant improvements.

⁶ The two prior year material weaknesses, Trust Fund Unpaid Obligations and Trust Service Award Liability, were consolidated in one material weakness, Trust Obligations and Liability Model, for FY 2019 audit.

⁷ Per GAO's *Standards for Internal Control in the Federal Government*.

EXHIBIT A
Material Weaknesses

- CNCS's Financial Reporting Business Process Narrative indicates that general ledger account or financial statement line item balance changes that meet or exceed 10 percent and \$1 million will require a detailed explanation as part of its balance fluctuation analysis. However, our testing confirmed that CNCS actually used 10 percent and \$7 million as a fluctuation analysis threshold. Further, CNCS's internal control testing indicated that the fluctuation analysis was properly performed in the third quarter. We continued to identify internal control deficiencies regarding CNCS's balance fluctuation analysis with inadequate documentation; use of generic explanations on significant account fluctuations; and errors in the formula used to calculate the fluctuations. See Financial System and Reporting material weakness below for details.
- CNCS's Grants Financial Management Process Narrative did not identify a control gap to verify the accuracy of CNCS's reporting of Advances to Others, which is adjusted based on the grant accrual estimate. We reported Grants Payable and Advances as a material weakness since FY 2017.
- CNCS's Office of Information Technology failed to disclose on its assurance statement the following exceptions identified in CNCS's internal control objectives for CGI – Momentum, CNCS's financial system:
 - *Control Objective: To ensure CNCS limits virtual access of CGI networks and user systems to authorized (employees) parties only.* CNCS's Internal Control Program (ICP) noted that none of the Momentum accounts for employees who departed CNCS during the period of July 1, 2018, through March 31, 2019 were disabled from Momentum.
 - *Control Objective: Ensure CNCS limits virtual access of CGI networks and user systems to authorized (employees) parties only and reports any changes to CGI in a timely manner.* ICP indicated that no quarterly reviews of user-profiles have been conducted since July 2018. Momentum is at risk of allowing access to parties that do not require system access.

CNCS's testing worksheet identified these exceptions as high-risk control deficiencies. However, in CNCS's summary assessment, one of those control weaknesses was incorrectly reported as a medium risk. As a result, the severity of the internal control weakness was understated. We disclosed similar findings as part of the information technology security controls significant deficiency.

- CNCS's Data Quality Plan (DQP) did not identify key controls over financial and award data reporting. The DQP also did not document CNCS's process for identifying and assessing risks related to spending data. As a result, there was no testing plan and identification of high-risk reported data. The DQP also did not identify the risk of misreporting, the impact of the risk, and when those risks will be addressed. The DQP only established responsibilities and procedures related to the quarterly data submission. The DQP also

EXHIBIT A
Material Weaknesses

was not addressed within the context of the appropriate functional office's assurance statement to the CEO or in the CEO's assurance statement.

- CNCS, in assessing the information security risks on its external systems managed by service providers, did not address the gap periods between the system audit coverage ending dates and CNCS's fiscal year-end date (September 30, 2019), ranging from 30 to 183 days. Specifically, CNCS did not review external system audit reports timely after the reports were issued to allow time to follow up concerning the gap in audit coverage. CNCS did not establish a requirement to obtain a gap letter from its external system service providers to obtain information regarding material changes in internal controls affecting the systems or perform timely review of the external system service providers' audit reports.
- CNCS did not complete a risk register that records identified risks at the mission and business process level or Tier 2 as defined by the National Institute of Standards and Technology. CNCS has delayed the preparation of a new risk register from February 2019 to December 2019. The existing risk register, the first one prepared by CNCS, did not meet all of the applicable requirements, as it simply collected inputs of staff, not all of whom had a clear understanding of risk principles. Leadership from various CNCS functional offices continue to develop the risk register at the mission and business process levels. However, with the recent departure of the Chief Risk Officer and other key personnel, the deployment of the risk register in December 2019 is at risk.

While we did not audit the internal control over programmatic operations, we also take note that CNCS has not completed or implemented corrective actions to address the grant monitoring weaknesses reported by GAO⁸ and by CNCS-OIG.⁹ These open recommendations relate to the accuracy of CNCS's grant risk assessment and the design and effectiveness of its grant management and monitoring. The absence of sound monitoring of CNCS's core business, which accounts for 75 percent of its operating budget, represents a potentially critical gap in the internal control over operations.¹⁰

OMB Circular No. A-123 states that agency management should provide a statement of *no assurance* when there are either "no processes in place or *pervasive material weaknesses*"¹¹ (emphasis added). It also requires management to continuously monitor, assess, and improve the effectiveness of internal control associated with those internal control objectives identified as part of their risk profile to support the annual assessment and report on internal control as

⁸ GAO Report GAO-17-90, *Grants Management: Monitoring Efforts by Corporation for National and Community Service Could Be Improved*, March 21, 2017

⁹ CNCS-OIG Semiannual Report To Congress 19-01, Appendix A, Unimplemented Recommendations.

¹⁰ CNCS's internal controls assessment of grant monitoring currently focuses on confirming grant compliance (e.g., timeliness and completeness of documentation) rather than assessing effectiveness of grant management.

¹¹ OMB Circular No. A-123, Section VI. E.

EXHIBIT A
Material Weaknesses

required by the FMFIA.¹² Management is required to regularly review risk to ascertain whether the risk profile has changed and gain assurance that risk management is effective or whether further action is necessary. Management must have processes in place to assess whether risks continue to exist, new risks have emerged and the impact of those risks in providing assurance on the effectiveness of controls.¹³

In summary, CNCS does not have a reliable, mature internal control program sufficient to comply with government-wide standards. The absence of appropriate internal controls makes CNCS's financial reporting unreliable.

We recommend that CNCS:

1. Establish a formal process that provides the CEO with comprehensive information on the results of CNCS's internal control assessment, status of open material weaknesses and significant deficiencies from prior year's financial statement audits, and information on issues that could be reported as a significant deficiency or a material weakness in the current year's financial statement audit for consideration in preparing the CNCS assurance statement. This should also include the status of open recommendations from other audits that have a significant impact on CNCS's operations or financial reporting. (new)
2. Provide training to CNCS officials participating in the entity-level control assessment to ensure that they have a full understanding of the internal control principles and how these principles relate to their operations. The training shall also address how the outstanding audit recommendations concerning their operations should be considered when assessing the entity-level controls. (new)
3. Revise the *CNCS Statement of Assurance Preparation and Submission Guidance* (March 2019) to:
 - a. Require the functional offices to consider external and internal audits and investigations in identifying and reporting on control deficiencies.
 - b. Require the functional offices to identify the impact that the material weakness or significant deficiency has on the financial statements or on CNCS's operations in their assurance statements. (new)
4. Revise the CNCS Financial Reporting Testing Plan to include verifying that the fluctuation analyses are conducted properly within the required thresholds. (new)

¹² OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, IV. Assessing Internal Control.

¹³ OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, II. Establishing Enterprise Risk Management In Management Practices, C. Implementation.

EXHIBIT A
Material Weaknesses

5. Revise the FY 2019 CNCS Grants Financial Management Business Process Narrative to address the control gap concerning the verification of the Advances to Others balance accuracy. (new)
6. Provide training to appropriate CNCS personnel regarding the purpose of the Data Quality Plan. (new)
7. Update and maintain the Data Quality Plan in accordance with OMB Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk* (M-18-16, June 6, 2018), and subsequent amendments. (new)
8. Update CNCS's *Standard Operating Procedure: Statement on Standards for Attestation Engagements (SSAE) 18 Report Review* to explain how CNCS will address the SSAE 18 audit reporting gaps for its external systems' service providers and establish time requirement for conducting the SSAE 18 report reviews. (new)

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

CNCS's financial reporting was hindered by limitations in its financial system (Momentum) and the timing and difficulties arising from limited accounting staff, lack of documentation to support accounting transactions, and inadequate internal controls. CNCS's efforts to identify, adjust and reconcile unsupported balances, while attending to the normal business operations, could not be completed in FY 2019 and ultimately prevented CNCS from providing auditable financial statements. These limitations contributed to an environment that forced CNCS to adopt temporary fixes rather than complete solutions to address pervasive longstanding issues.

Effective controls in financial reporting are critical to ensure that financial information is adequate, accurate and reliable, so that Congress and the general public can hold CNCS accountable for the expenditure of taxpayers' money. CNCS's financial reporting controls were either not properly designed or not implemented effectively. Repeated financial reporting issues from prior years continued in FY 2019. This resulted in unreliable financial information, including the failure to record significant accounting transactions and prepare complete and accurate financial statements.

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

- A. Lack of internal controls related to the preparation and review of CNCS's financial accounting and reporting process;
- B. Systemic deficiencies in the core financial system;
- C. Improper design of internal controls for the use of Standard Vouchers and Journal Vouchers; and

EXHIBIT A
Material Weaknesses

- D. Financial statements not prepared in accordance with generally accepted accounting principles (GAAP) and OMB Circular No. A-136.

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

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

A1. Internal control deficiencies in the preparation of the financial statements and review of the trial balance

Financial reporting weaknesses previously reported continued to exist in FY 2019 despite the efforts made by CNCS staff to remediate prior-year conditions. CNCS was able to address legacy stale balances and improve internal controls over the cost allocation process. However, substantial additional improvements are needed in CNCS's control environment. We identified the following deficiencies in FY 2019:

- a. There were errors in the Government-wide Treasury Account Symbol (GTAS)¹⁴ submission process that went undetected by CNCS's quality control process. For example, CNCS did not record the \$150 million rescissions enacted in the 2019 Appropriation Act on September 28, 2018. CNCS explained that it had been waiting for OMB guidance from the third quarter GTAS submission prior to recording the rescission. However, CNCS was unable to provide corroborating evidence after multiple requests from us. The only correspondence provided to us was a November 1, 2019 email showing that OMB identified CNCS's failure to record the rescission during CNCS's September 2019 GTAS submitted on October 29, 2019. In another instance, CNCS recorded a \$2.2 million erroneous adjustment in an attempt to pass the FY 2019 first quarter GTAS submission. CNCS was unable to support the cause of the error.
- b. CNCS did not implement prior-year recommendations to remediate control weakness in its financial reporting process. CNCS's monthly trial balance review was incomplete and ineffective. CNCS did not properly research, follow up and effectively document explanations for known and recurring account balance differences, including abnormal account balances. These errors resulted from incorrect core accounting system (Momentum) configuration. Accordingly, there were discrepancies between the budgetary and proprietary relationship in which CNCS should analyze. The

¹⁴ GTAS system is used by agencies to report budget execution information and proprietary financial reporting information to the Department of the Treasury.

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budgetary-to-proprietary analysis (tie point) was incomplete as significant variances identified were not researched to assess the reasonableness of related accounts and balances. This high-level analysis allows management to detect anomalies in balances.

- c. Other financial reporting internal control deficiencies include lack of adequate control over the review of the financial statements and corresponding financial statement checklists; significant prior period adjustments without adequate support; significant inconsistencies between CNCS's accounting structure and that required by Treasury Financial Manual; reconciliation differences between CNCS financial statements and its trial balance; and inability to maintain and track trading partner agreements and advances of funds received from inception to close-out.
- d. CNCS did not provide a complete set of its September 30, 2019, financial statements (including notes) until November 6, 2019, only 13 days before the mandatory reporting deadline of November 19, 2019.

Overall, CNCS's control environment did not demonstrate the required discipline to provide readily available information and present reliable and auditable financial statements.

A2. CNCS did not properly perform and document its account balance fluctuation analysis.

CNCS did not perform a complete and reliable fluctuation analysis of its June 30, 2019 account balances. CNCS's documented explanations for significant balance fluctuations were generic and did not address the specific nature of the transactions, change in operations or trends sufficient to show the root causes of the balance fluctuations. Additionally, we identified formula errors in CNCS's fluctuation analysis spreadsheet and significant differences were not addressed due to CNCS's high materiality threshold set for its analysis. CNCS did not provide a basis for the materiality used in the analysis. It also did not document its account balance fluctuation expectations based on its operating environment, and compare those expectations to the identified significant balance fluctuations for reasonableness or unexpected change.

We recommend that CNCS:

- 9. Establish a process to maintain executed agreements with Federal trading partners and track all associated costs against the inter-agency agreements from inception until the agreement close-out. (new)
- 10. Develop comprehensive policies and procedures for the financial statements preparation process and related internal controls. The policies and procedures should address, among other subjects:
 - a. The process to determine and document CNCS's balance fluctuation expectations. Expectations should be documented based on a combination of internal and

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- external operating factors, and program and financial relevant information available.
- b. The materiality threshold used to determine significant balance fluctuations that require further research should be more conservative than that used by external auditors.
 - c. Detailed process to research significant balance fluctuations. CNCS should research and explain all significant balance fluctuations at the account and transaction level. Maintain and have the supporting documentation readily available.
 - d. Research and retain supporting documents required for any identified account balance differences derived from its abnormal balance review or the tie point analysis.
 - e. Address fatal and non-fatal Government-wide Treasury Account Symbol Trial Balance edit failures.
 - f. Address all balance differences and retain supporting documentation of related research.
 - g. Document and maintain support for all prior period adjustments and changes to Net Position accounts, Cumulative Result of Operations, and Unexpended Appropriations. (repeat)
11. Monitor outstanding balances resulting from financial system configuration issues and fix these issues prior to data migration to the future shared service provider (Department of Treasury's Administrative Resource Center) in FY 2021. While waiting to transition, CNCS should strengthen its current trial balance review including tie-point analysis and review of abnormal balances. (modified repeat)
12. Coordinate with the future shared service provider to ensure that its accounting platform is compatible with CNCS's operations and the type of accounting transactions that the CNCS process. (new)
13. Develop a plan to clean up CNCS's balances prior to migration to the shared service provider's system (Department of Treasury's Administrative Resource Center). The plan should include coordination with the future service provider to review CNCS balances in detail to ensure they are properly supported and can be mapped into the Administrative Resource Center's platform. Maintain all documentation regarding meeting minutes and any mapping of account balances developed as part of the migration effort. (new)

B. Systematic deficiencies in the core financial system

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

CNCS's financial system was not properly set up to record transactions with object class (OC) codes. Our analysis of the CNCS general ledger history report identified pervasive errors such as transactions without OC codes. The financial system set up was also not in compliance with OMB

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Circular No. A-11, *Preparing, Submitting, and Executing the Budget (OMB Circular No. A-11)*, which requires OC codes to be associated with the United States Standard General Ledger (USSGL) transactions. As a result, considerable research is needed to correct the OC reporting of many transactions related to undelivered orders or delivered orders budgetary accounts. To compensate for the system limitation, CNCS uses general ledger accounts and sub-accounts with associated document type and transaction type codes to classify transactions for reporting. However, this time-consuming, manual effort could increase the risks of financial reporting errors.

We recommend that CNCS:

14. Complete its efforts to be fully compliant with the Office of Management and Budget Circular No. A-11, *Preparing, Submitting, and Executing the Budget*. (repeat)
15. Provide mandatory training to CNCS accounting staff on the proper use of object class, sub general ledger accounts, and document/transaction types on all obligation and expense transactions. (repeat)

C. Improper design of internal controls for the use of standard vouchers and journal vouchers

CNCS continues to overuse standard vouchers (SVs) and journal vouchers (JVs) to work around limitations to its accounting system and ineffective financial reporting internal controls. As of June 30, 2019, CNCS recorded SV/JV transactions that approximated \$3.5 billion in absolute value.

The SV transactions definition or posting logic were outdated, inaccurate or inconsistent with the latest Department of Treasury's USSGL guidance, which could result in misstatements in the financial statements.

CNCS used JVs to address significant recurring financial reporting issues across multiple funds, instead of resolving the underlying root causes of the problems that the JVs are intended to circumvent. In many cases, incorrect JVs were used to correct other JVs which led to misstatements in the financial statements. For example, there were multiple JV transactions recorded by CNCS's Budget Office in error that required additional JVs to correct. CNCS also had issues with separating transactions between direct and reimbursable funds when the main account code for the original transaction is recorded as a direct fund. The commingling of direct and reimbursable funds led to additional adjustments (SV/JV) to pass GTAS edits.

We also identified control deficiencies for the use of SVs/JVs, such as generic SVs/JVs descriptions without specific usage justification and lack of policies and procedures over the use of SVs/JVs. The over-reliance, incorrect usage, and inaccurate SVs/JVs created a high risk of material misstatements in the financial statements.

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We recommend that CNCS:

16. Validate and ensure standard vouchers/journal vouchers are properly supported, documented, and are readily available for examination. (modified repeat)
17. Strengthen coordination between Accounting and Financial Management Services and the Office of Budget to ensure that transactions are recorded accurately and timely. (modified repeat)
18. Develop and implement policies and procedures for the standard vouchers/journal vouchers (SV/JV) process that include:
 - a. tracking the sequence of SVs/JVs for completeness;
 - b. appropriate use of SVs/JVs;
 - c. determining and maintaining relevant documentation to support each SV/JV;
 - d. use of specific and accurate SV/JV descriptions; and
 - e. timely review and approval of SVs/JVs for accuracy and propriety. (modified repeat)

D. Financial statements not prepared in accordance with GAAP and OMB Circular No. A-136

CNCS's June 30, 2019 (interim) financial statements were not prepared in accordance with GAAP and OMB Circular No. A-136.¹⁵ Starting in FY 2018, CNCS adopted full compliance with all sections of OMB Circular No. A-136, Sections I, II, III, IV, and V for financial reporting framework. OMB Circular No. A-136 requires comparative financial statements for financial reporting requirements. CNCS, during the fourth quarter of FY 2019, decided to deviate from OMB Circular No. A-136 by presenting a single year financial statements for June 30, 2019 and September 30, 2019 instead of comparative financial statements. However, CNCS elected to follow OMB Circular No. A-136 requirements for other aspects of financial statement presentation.

Certain line items were not complete as CNCS did not apply the necessary guidance established by GAAP to record its accounting transactions. For example, CNCS has not recorded an asset capitalizing the tenant improvement costs since FY 2016 in accordance with GAAP. CNCS explained that it is having difficulty researching the amounts to establish the balance to be capitalized.

We recommend that CNCS:

19. Finalize its research to establish the amount to capitalize for tenant improvement costs and retain proper documentation of the research. While the research is ongoing, CNCS

¹⁵ OMB Circular No. A-136 encourages all Government Corporations to comply with the various sections of OMB Circular No. A-136 (Sections I, II, III, IV, and V).

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should disclose non-GAAP accounting and the impact on the financial statements.
(modified repeat)

- 20. Evaluate CNCS’s compliance with all sections of OMB Circular No. A-136, *Financial Reporting Requirements*, including preparing comparative financial statements and notes to comply with the financial reporting framework for federal government agencies.
(modified repeat)

3. Trust Obligations and Liability Model (modified repeat material weakness)

CNCS implemented a new methodology to estimate its Trust obligations and Trust Service Award Liability (TSAL) in the first quarter of FY 2019. A significant change in CNCS’s new methodology for FY 2019 was the calculation of the estimated TSAL for members currently earning education awards in accordance with accounting standards. Specifically, we identified both inconsistencies between the assumptions used and how those assumptions were applied in the estimation of the Trust obligations and TSAL. For example, CNCS’s Trust obligations and TSAL are predicated on the expectation that education awards earned by members will be paid throughout the course of the award year, rather than as a single payment due on a specific date. However, this assumption was not reflected in CNCS’s Net Present Value calculation spreadsheet. Upon revision of CNCS’s estimation model to capture the assumption, there was a significant change in the final Trust obligations and TSAL calculations at the end of the third quarter.

We also have concerns with the model’s assumptions. CNCS’s estimation model does not adequately reflect the increase in the average expenditure over time. The data used by CNCS (completed¹⁶ data for awards granted from 1994 to 2009) shows an overall long-term trend of increase in utilization of education awards for which is not adequately accounted in CNCS’s methodology. In addition, CNCS methodology did not use available current data that if considered would provide a more accurate depiction of future liabilities versus using older years. For example, we noted that the program year 2010 was approximately 99 percent complete and would provide a more accurate prediction of future liabilities versus the older years used in CNCS model from program years 1994 to 2004. By failing to consider these factors, CNCS could misstate its obligations and liabilities.

As in the prior year, we continue to find significant internal control issues with the new estimation model. The Trust Handbook developed by CNCS to document the methodology and assumptions used by management was not completed until late in FY 2019 and continued to contain errors or to omit needed information. For example, we identified inconsistencies in CNCS’s internal documentation regarding the materiality in its validation process, which prompted CNCS to correct its Trust Handbook. The continuous and ongoing changes to the Trust Handbook during the audit prevented us from performing necessary and adequate audit procedures to assess the

¹⁶ CNCS’s methodology considers a program year completed if 99.6 percent of the expenditures would have been made after the ninth program year.

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completeness, accuracy, reasonableness, integrity and soundness of the new methodology. The quality controls around the new estimation process were ineffective as CNCS relied on us to identify errors and bring them to management's attention for fixing.

In addition, CNCS used Excel spreadsheets to calculate its Trust obligations and TSAL. As we reported in the prior year audit, the use of this method is prone to human errors as 1) CNCS used a manual cut-and-paste process to transfer data from other system reports to the Trust Obligations and Liability's model; 2) CNCS could override assumptions without adequate justification or documentation; 3) there were formula errors in the calculator used to adjust the balances of Trust obligations and the TSAL, and 4) CNCS used incorrect amounts in its validation calculation that led to misstatements of the Trust obligations and the TSAL.

Finally, CNCS has long relied upon a part-time annuitant to perform the Trust obligations and liabilities model and related calculations. This individual will reach the expiration of his permitted term of employment early in 2020, and CNCS still does not have a succession plan or knowledgeable staff to assume responsibility for this critical task.

We recommend that CNCS:

21. Complete the Trust Accounting Handbook to clearly reflect the assumptions used in the Trust Obligation and Liability Model and the Monthly Obligation and Liability Calculator, including establishing control activities; finalize materiality thresholds applied; update accounting transactions, and clearly identify periods when adjustments will be made regardless of materiality. (new)
22. Develop for a more standardized, secure, and automated method to estimate the Trust obligations and Trust Service Award Liability that ensures minimal human errors. As part of the ongoing CNCS's transition to shared service, coordinate with the service provider to determine methods that would enhance the security and quality of the existing estimation models. (new)
23. Strengthen controls to ensure the Trust modeling is performed by trained personnel to:
 - a. Conduct detailed analysis and validation of data sources.
 - b. Review and ensure the reasonableness of assumptions used and document the rationale behind estimation assumptions.
 - c. Consider changes in conditions or programs that require further research and analysis. Update the assumptions when necessary.
 - d. Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates.
24. Document and implement policies and procedures to include the following:
 - a. establish a thorough and robust quality control process to ensure that the Trust Obligation and Liability Model (TOLM) and Monthly Obligation and Liability

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Calculator (Calculator) are reviewed by qualified CNCS personnel prior to relying on its outputs to record transactions. All errors identified for which management ultimately decided against making updates to the TOLM or Calculator should be documented along with an explanation as to how management arrived at the final decision;

- b. perform monthly reviews and reconciliations of the recorded new and outstanding obligations to ensure the accounting information is valid and proper;
- c. review obligation amounts to ensure amounts accurately reflect the status of the obligation;
- d. review obligations to verify that amounts, timeframe (*i.e.*, grant dates are correctly reflected in the obligation);
- e. ensure obligations are sufficiently supported (*i.e.*, by documentary evidence); and
- f. perform complete reconciliations of all outstanding obligations monthly, and ensure any discrepancies identified are promptly researched and resolved. (repeat)

25. Coordinate with the Office of the Chief Risk Officer (OCRO) to properly identify the National Service Trust Fund's financial reporting risks and incorporate those risks into the OCRO's annual testing of key controls. (modified repeat)

26. Develop a succession plan to ensure the required expertise is available in anticipation of planned employee turnover, particularly with respect to the complex trust calculations. CNCS needs to:

- a. Train, mentor, and work to retain qualified employees;
- b. Cross-train employees so that knowledge of the model will reside with multiple staff rather than with one person; and
- c. Implement a peer review process to carry out the necessary quality control reviews of the Trust Obligation and Liability Model and the Monthly Obligation and Liability Calculator. (repeat)

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

CNCS changed its grant accrual methodology in FY 2019 to exclude "incurred but not reported" (IBNR) costs¹⁷ from the accrued expenses and liability. However, CNCS did not provide documentation to support its decision to exclude the IBNR costs from the grant accrual estimate. The omission of IBNR costs from the grant accrual estimate has a direct impact on advances as those costs would have been applied against the outstanding advance balance.

¹⁷ These amounts represent the estimated liability for costs already incurred by the grantees but will be reported in the following quarter.

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Based on the IBNR cost calculation method used in the prior year's grant accrual methodology, CNCS has excluded at least \$23.3 million in estimated IBNR costs from its accrual estimate as of June 30, 2019. However, CNCS has not validated the method used to calculate the estimated IBNR costs as being reasonable. We believe the IBNR costs are significantly higher given our projected \$61.1 million overstatement of Advances to Others reported. The overstatement of advances is contributed to an exclusion of a reasonable IBNR cost estimate in its grant accrual, which is used to offset the advances as of June 30, 2019. CNCS repeatedly stated that it had an analysis sufficient to show a basis for omitting an IBNR calculation, but none was ever provided.

The grant accruals are estimates. Per Federal Accounting Standards Advisory Board, *Accrual Estimates for Grant Programs*, Federal Financial Accounting Technical Release 12, a Federal grant-making entity must demonstrate the reliability of its grant accrual estimates. CNCS adopted a new grant accrual methodology that did not demonstrate that reliability because it did not (a) include IBNR costs in the grant accrual estimate, (b) include validation process to confirm the reasonableness of the Advances to Others line item, (c) show how grant accrual calculations were used to arrive at the reported Grants Payable and Advances to Other line items in the Balance Sheet, and (d) provide support for variance threshold used for determining the reasonableness of the grant accrual estimate.

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

We recommend that CNCS:

27. Coordinate with the program and grant officers to gather and analyze key grant programs' (AmeriCorps State and National and Senior Corps) historical data and the grantees' spending pattern to develop the following key factors for grant accrual estimation:
 - Percentage of CNCS grantees who drawdown funds in advance versus those on a reimbursable basis and their related 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 considered relevant and reliable;
 - Grantees' incurred but not reported (IBNR) reporting pattern from when the expenses have been incurred to the time those expenses are included the grantees' Federal Financial Reports (FFR). Grantee surveys may be conducted to confirm the reasonableness of an IBNR estimate methodology. When alternative procedures are used, management should provide its data-based analysis to validate its assertion; and

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- Post-accrual analysis to compare the accrual (without the IBNR) and the expenditures reported in the FFRs for the same quarter. Thresholds should be established and documented based on materiality and the degree of risk that management is willing to accept. When grantees' reported spending pattern 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. (modified repeat)

28. Revise and implement policies and procedures for the grant accrual methodology so that:

- A validation process is established for management 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 to account for grant advances and payables to ensure the resulting amounts are materially consistent with grantees' drawdown and spending patterns;
- It addresses how the calculations are used to arrive at the Grants Payable and Advances to Other line items in the financial statements. (modified repeat)

29. Develop a process to validate grant advances, incurred but not reported 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. (modified repeat)

5. Undelivered Orders and Accounts Payable – Procurement (modified repeat material weakness)

In FY 2019, CNCS implemented a new methodology, which was not formally documented, to estimate and validate Accounts Payable (AP) accrual for IBNR related to procurement to address prior year audit recommendation. CNCS's process to estimate the accrual is based on the average ratio of payments over undelivered orders (UDO) for a selected period of quarters. We identified the following control deficiencies that could lead to misstatements of CNCS's AP accrual estimation:

- The new methodology did not include common factors typically used for estimating AP accruals, including contract period of performance and vendor billing patterns. CNCS explained that it excluded the contract period of performance in its methodology because the information was not available in Momentum.
- There was no quarterly review of open obligations until September 2019. Correspondence from CNCS's Budget Office, which is responsible for the review, indicated that the Accounting and Financial Management Services did not provide a consolidated report of open UDO until mid-September.
- The AP accrual validation process failed to exclude subsequent payments not related to the outstanding UDO balances.

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- CNCS did not provide support for the materiality thresholds applied which could allow significant differences going undetected.
- There were errors between the amounts recorded in the trial balance and the financial statements due to system interface errors between Momentum and eGrants.
- The UDO population included significant abnormal balances due to Momentum's incorrect transaction posting logic.

CNCS did not provide us the results of the validation performed in September 2019 to assess the accuracy of the June 30, 2019, AP accrual. CNCS was also unable to provide supporting documentation, such as contracts/purchase orders/modifications, to conduct our June 30, 2019 undelivered order balance testing.

The combination of these deficiencies creates an environment for financial statement misstatement to exist and go undetected.

We recommend that CNCS:

30. Centralize the storage of all procurement documents in contract files and maintain them electronically. (repeat)
31. Strengthen internal control to ensure procurement documents are properly approved and retained. (repeat)
32. Analyze procurement undelivered orders balances quarterly to verify that balances are still valid for those without financial activities for an extended period. (repeat)
33. Research, resolve and document the disposition of any abnormal undelivered orders transactions/balances. (repeat)
34. Correct the financial system's posting logic to ensure all future transactions are recorded properly in accordance with United States Standard General Ledger. (repeat)
35. Document the accounts payable accrual methodology to include the recognition and reporting of the incurred but not reported. The methodology should also document key controls related to review and approval process of the accrual estimation; materiality and how it is applied; reviewing, approving, and recording of invoices prior to processing payments; inputs to be used in the validation; consideration of payment types; and the basis for including or excluding typical factors in estimating accruals, such as period of performance, type of contract, billing patterns, and others. (modified repeat)
36. Conduct validation assessment of amounts accrued for the incurred but not reported on a periodic basis. As part of the validation, CNCS should consider the following:
 - a. Subsequent activities against the amount estimated to determine the level of precision in the estimation;

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- b. Trend the validation results and adjust the incurred but not reported estimation process to address any recurring significant fluctuations; and
- c. Update the incurred but not reported estimation process as necessary to reflect changes in payment patterns. (repeat)

37. Evaluate the materiality thresholds used in the accrual estimation to ensure it is appropriate to prevent misstatements. The materiality threshold used should be appropriate that, in the aggregate, identified misstatements would not rise to a level that will significantly impact management’s assertions on the financial statements. (new)

38. Implement controls to ensure that transactions interfaced from eGrants are reflected in Momentum for the correct amounts, accounts, and number of transactions. (new)

6. Property and Equipment (modified repeat material weakness)

In FY 2019, CNCS wrote off a total of \$33.8 million expended for the development and acquisition of the Grants and Member Management System (GMM) software, which was intended to replace the eGrants and eSPAN systems. This was the largest information technology project in CNCS’s history, and it was a total loss. The write-off occurred in two tranches: (1) on June 27, 2019, CNCS wrote off \$28.8 million, the amount previously capitalized by CNCS for Software-in-Development, and (2) on July 22, 2019, CNCS wrote off an additional \$5.05 million for software costs that should have been, but were not, previously recorded by CNCS as capitalized assets. CNCS did not explain why the \$5.05 million was not capitalized. In addition, the total costs written off did not account for direct labor and indirect costs incurred by CNCS on the project. As previously reported, CNCS does not track and capitalize direct labor and indirect costs related to Software-in-Development as required by accounting standards. The errors identified highlight long-standing issues with CNCS’s inadequate accounting practices.

Furthermore, CNCS has not recorded a capitalized asset for the tenant improvement component of its 2016 General Services Administration lease for CNCS’s headquarters building in Washington, DC. The lease includes a tenant improvement amortization cost of \$3.7 million and a tenant improvement allowance of \$4.1 million. Since the lease inception in 2016, CNCS’s accounting department has not recorded a capitalization for the tenant improvements and stated in FY 2019 that they were unable to obtain the documentary support needed to capitalize those costs. As a result, CNCS’s Property and Equipment costs may be understated by as much as \$4.1 million.

We recommend that CNCS:

- 39. Analyze contractor-developed software costs that were expensed but not capitalized in accordance with accounting standards. (repeat)
- 40. Update CNCS policy to recognize and record capitalized costs in the period incurred. (repeat)

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41. Update CNCS policy to include requirements for compliance with accounting standards; track direct labor and other indirect costs, including hours, worked and payroll costs dedicated to existing and new software-in-development projects; track and amortize tenant improvement costs in accordance with the lease agreement. (new)
42. Review the GMM contract status to ensure proper and timely deobligation of any remaining unliquidated obligations that are no longer needed. (new)
43. Consult with the future shared service provider and other stakeholders to determine the feasibility of procuring and using project management software to track project costs from the inception to completion. The results of the analysis should be documented and made readily available. (new)
44. Establish and implement periodic training on capitalization accounting standard, and CNCS Capitalization Policy for accounting, program, Office of Facility Support Services, and information technology staff. (new)
45. Develop and perform a periodic analysis of expenses incurred, e.g., software-in-development costs and repairs and maintenance, to determine if they meet the capitalization requirements and conduct any follow-up to ensure costs are properly capitalized. (new)

7. Undelivered Orders – Grants (modified repeat material weakness)

Grant UDOs are outstanding grant awards obligations. Our testing of grant UDOs as of June 30, 2019, noted the following exceptions from 210 items samples:

A. The difference between the Notice of Grant Awards award amount and the Payment Management System grant expenditures did not agree with the Undelivered Orders

We found substantial inconsistencies within CNCS’s systems regarded the amounts awarded as grants and the remaining unexpended funds. For grants, the total amounts awarded, less the amounts drawn down by the grantee from the Payment Management System, should equal the sum recorded in CNCS’s general ledger as unexpended (Grants—Undelivered Orders [UDO]).

For 11 grants sampled, we found that the unexpended balance recorded in Momentum (general ledger) differed significantly from the amounts awarded per the Notices of Grants Award (NGA), less the draw downs. This resulted in a net understatement of \$10.4 million and a difference of \$15.2 million in absolute value in Momentum. The unexpended grant balance recorded in Momentum should be the same as the total grant funds awarded, less the amounts drawn down by the grantee. CNCS did not respond to this finding or explain the UDO differences. As a result, we cannot determine if the grant UDO balance is fairly stated.

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B. The total grant award amount recorded in the financial system did not agree with the most recent NGA

For 12 grants sampled, CNCS's financial system (Momentum) recorded awards totaling \$54.8 million, while the most recent NGA reported a total of \$42.3 million. The NGA, generated and retained in CNCS's grant management system eGrants, is the supporting documentation for processing grant award obligation or de-obligation. CNCS did not provide any response concerning the discrepancy between Momentum and the NGA totaling \$12.5 million. In addition, we also noted instances where there is no NGA to support the obligation or deobligation that occurred in Momentum.

We are unable to rely on the grant obligation amounts in Momentum since it is not reliably consistent with the NGA information from eGrants, which serves as the official obligation document. Unresolved differences of grant award amount between the official grant award documents and the financial system pose a significant risk of misstated obligation balances.

C. Grant expenditures from the Payment Management System did not agree with the expenditures recorded in the financial system

Expenditures for eight grants reported in the Payment Management System (PMS) (grant drawdown and expenditure reporting system managed by the Department of Health and Human Services) did not reconcile to the grant expenditures recorded in Momentum as of June 30, 2019. The expenditures reported in PMS is \$400 thousand more than Momentum.

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

D. Grants were not closed-out timely

Ten grants remained open for more than one year after the end of their period of performance. In accordance with Uniform Grant Guidance, CNCS is required to close out the grant no later than one year after receipt and acceptance of all required final reports, which are due within 90 days after the end of the period of performance. There was no evidence from the grant files showing that CNCS had granted an extension to the grantees. As a result, these ten grants with UDO balances of approximately \$6.1 million overstated the obligations balance and should have been closed out and the funds de-obligated.

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

The transaction code used by CNCS to record grant expenditures for 178 grant samples were not consistent with the USSGL transaction codes. CNCS's transaction code erroneously obligates

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funds that cause duplicated obligations by recording incorrect USSGL accounts. As a result, a subsequent transaction is required to eliminate the duplicate obligation recorded.

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

We recommend that CNCS:

46. Determine the root cause behind the differences noted in the Undelivered Orders balance between Momentum and the Undelivered Orders balance derived from the net of grant award amount from the Notice of Grant Award and the grant expenditures from the Payment Management System, and take the appropriate steps in resolving the reason behind the variances that are occurring. (new)
47. Determine the root causes and resolve discrepancies in the grant award amounts recorded in the NGA in eGrants and in Momentum to prevent such differences from occurring in the future. (repeat)
48. Determine the root causes and resolve expenditure differences between the Payment Management System and Momentum. (repeat)
49. Strengthen controls around the review of expired grant obligations by ensuring that:
 - a. All financial, performance and other required reports are submitted no later than 90 calendar days after the end date of the period of performance.
 - b. Document justifications for all required reports submission extensions granted to the grantee. (repeat)
50. Update the CNCS transaction code posting logic for recording grant expenditures to comply with the United States Standard General Ledger guidance. (repeat)

8. Recoveries of Prior Year Obligations (Recoveries) (modified repeat material weakness)

OMB Circular No. A-11 states that a grant or procurement obligation is reported at the time the grant or procurement is awarded and is liquidated upon payment to the grantee or the vendor. When an existing obligation is no longer valid, the agency should record a recovery of prior year unpaid obligations. CNCS was unable to provide complete documentation, including final Federal Financial Reports and/or final Progress Reports, to support more than half of our June 30, 2019 grant recovery samples. There were two instances out of 19 samples tested where there was no supporting documentation in eGrants to support and validate the recovery amount reported. We also noted one procurement sample where the total supported travel de-obligation amount did not agree to the recovery amount in the general ledger.

EXHIBIT A
Material Weaknesses

We also noted that CNCS's OMB Circular No. A-123 internal control testing for procurement was limited to awards and closeouts but did not include any control testing related to contract modifications resulting in funding changes. Due to the magnitude of potential errors in our recoveries sample population and lack of response from CNCS, we are unable to rely on our testing results to statistically project a reasonable potential misstatement amount.

We recommend that CNCS:

51. Establish a requirement for Grant Officer/Portfolio Managers to provided documented certification that all required grantee information has been received, accepted, and documented before the grant is closed out. (repeat)
52. Revise its OMB Circular No. A-123 internal control program testing to include a review of contract modifications. (new)
53. Establish a control requiring the Grant Officer/Portfolio Manager to provide documented certification, upon grant closeout, verifying the total award amount to total award expenses for the deobligated recovery amount. (repeat)
54. Determine the cause for the travel cost recovery difference to ascertain what corrective action is needed and to prevent issues from recurring. (new)
55. Inform all Grant Officers/Portfolio Managers to ensure that a reduction in funding to the award of a grant should be documented in eGrants which would result in modified Notice of Grant Awards. (new)

9. Other Liabilities (modified repeat material weakness)

The financial statement line item Other Liabilities represents amounts owed but not yet paid, such as payroll and benefits, AmeriCorps VISTA stipends, unreimbursed Federal Employees' Compensation Act claims, other unfunded employment related liability, liability for non-fiduciary deposit funds and undeposited collections, and accounts payable canceled appropriations. CNCS was unable to provide any supporting documentation for approximately \$2.4 million reported as of June 30, 2019.

We recommend that CNCS:

56. Reconcile the amounts reported in Other Liabilities to supporting documents to verify that Other Liabilities are supported by valid transactions and properly classified. (repeat)
57. Strengthen financial reporting internal controls and ensure that financial statements accounting line items are reviewed and reconciled to supporting documents prior to recording. The internal control activities should ensure proper posting of Member Payroll related liabilities on the Balance Sheet. (modified repeat)

EXHIBIT B
Significant Deficiencies

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

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

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

Our review of IT controls covered general and application controls both at the enterprise and at the facility levels, the Field Financial Management Center, National Civilian Community Corps campuses and State Offices. Our current year audit identified security control weaknesses that were corrected for certain control activities. Examples of CNCS improvements in its IT control environment include: maintaining the security authorization process in accordance with OMB requirements, assessing the information security and privacy risks to the Corporation associated with the use of external information systems, completing the process for aggregating the financial system database security logs into the security event management system.

While CNCS has taken some steps to remediate previously identified information security control weaknesses, its efforts have focused on developing policies and procedures and system security documentation. However, CNCS faces ongoing challenges in the consistent implementation of its information security program and monitoring of security controls. In addition, we identified new and continued to control weaknesses in the information security program that need to be addressed, most importantly pertaining to access controls, configuration management controls, logging, and monitoring controls, organization-wide risk management, personnel screening, and physical access controls. Specifically, we identified enterprise and facility-level findings for each of the following domains:

Configuration Management

- Vulnerabilities related to patch management, configuration management, and unsupported software continue to expose the CNCS network to critical and high severity vulnerabilities. While our independent vulnerability scans indicated that the number of vulnerabilities has decreased slightly since last year, the remaining vulnerabilities continue to be high in volume as well as in severity.

CNCS's vulnerability management program needs to improve to effectively identify, monitor and remediate known vulnerabilities to reduce the risk of security breaches. This includes

EXHIBIT B
Significant Deficiencies

monitoring and recording actions taken by the General Support System (GSS) contractor to ensure vulnerability remediation for network devices and servers are addressed or the exposure to vulnerabilities is minimized (Modified Repeat)

- CNCS documented standard baseline configurations only for its Microsoft Windows servers, but not for its databases, network devices, and Web browsers. (Repeat)
- CNCS did not effectively manage its information system inventory resulting in issues related to the completeness and accuracy of the inventory. (New)

Access Control

- CNCS did not effectively manage user accounts and/or passwords for the network, Momentum, My AmeriCorps Staff Portal, and Electronic-Systems for Program Agreements and National Service Participants (eSPAN).
 - Separated users maintained active accounts for Momentum. In addition, although network accounts were disabled, accounts were not removed from the My AmeriCorps Staff Portal Active Directory (AD) Organizational Unit.¹⁸ Access to My AmeriCorps Staff Portal is managed through AD; therefore, if the AD accounts were re-enabled, access to the application would be maintained. (Modified Repeat)
 - CNCS did not disable inactive accounts for the network and My AmeriCorps Staff Portal. (New)
 - CNCS did not perform recertification of Momentum user accounts during the first two quarters of FY 2019 as required by the CNCS policy. (New)
 - CNCS did not disable network and eSPAN accounts when the user's password was not changed in accordance with CNCS policy or the System Security Plan. (New)
- CNCS did not implement multifactor authentication¹⁹ (e.g., PIV card) for local and network access for privileged users. In addition, although multifactor authentication for network access was being implemented for non-privileged users on Microsoft Windows 10 workstations in July 2019, it was not fully enforced by the end of FISMA fieldwork in August 2019. Users were still able to log in with just a user name and password. (Modified Repeat)
- Management at Headquarters and one field office did not ensure adequate physical access controls. (Modified Repeat)
- Wireless network logs at two field offices were not reviewed and analyzed by the campus personnel. (New)

¹⁸ An Organizational Unit is a subdivision in Active Directory to hold users, groups, and computers with designated Group Policy settings and account permissions.

¹⁹ Multifactor authentication requires two or more credentials when logging on to information systems. Credentials include something an individual knows, such as a password, and something an individual possess, such as a Personal Identification Verification (PIV) card or fingerprint.

EXHIBIT B
Significant Deficiencies

- Access control issues reported last year related to mobile devices at CNCS field offices were not remediated.²⁰ (Repeat)

Security Management

- CNCS developed an information system risk register; however, it did not complete a risk register to record identified risks at the mission and business process level, as defined by NIST.²¹ (Modified Repeat)
- CNCS did not ensure all Momentum, eSPAN, and My AmeriCorps Staff Portal users completed system access agreements (Rules of Behavior) prior to gaining system access. (New)
- CNCS did not ensure certain employees had the proper background investigations in accordance with the risk associated with their assigned positions. (Repeat)

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

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

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

²⁰ Although we did not revisit CNCS field offices where we originally found these issues in FY 2017, CNCS confirmed that it had not completed the related corrective actions. We did not find similar issues from the field offices we visited during FY 2019.

²¹ NIST Special Publication 800-39, Revision 1, *Managing Information Security Risk Organization, Mission, and Information System View*, specifies an integrated risk management process three-tiered approach for managing risk across an organization that "addresses risk at the: (i) organization level; (ii) mission/business process level; and (iii) information system level. The risk management process is carried out seamlessly across the three tiers with the overall objective of continuous improvement in the organization's risk-related activities and effective inter-tier and intra-tier communication among all stakeholders having a shared interest in the mission/business success of the organization."

EXHIBIT B
Significant Deficiencies

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

We recommend that CNCS:

- 58. Develop a multi-year strategy to better strategically prioritize and allocate resources to address the new and continuing weaknesses identified and work towards automation, continuous monitoring and consistent application of controls. (repeat)
 - 59. Enforce the agency-wide information security program across the enterprise and improve performance monitoring to ensure controls are operating as intended at all facilities. (repeat)
 - 60. Strengthen and refine the process for communicating CNCS facility-specific control deficiencies to CNCS facility personnel, and coordinate remediation of the control deficiencies. (repeat)
 - 61. 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. (repeat)
 - 62. Strengthen and refine the process for holding contractors accountable for remediation of control deficiencies in CNCS information systems. (repeat)
 - 63. Implement all detailed recommendations in the FY 2019 FISMA Evaluation report. (repeat)
- 2. Accounts Receivable and Allowance for Doubtful Accounts (modified repeat significant deficiency)**

CNCS's Accounts Receivable (AR) balance on June 30, 2019 was misstated due to its failure to implement its policies and procedures and the ineffectiveness of its internal controls. Errors we reported since FY 2017 continued to exist in FY 2019. We found the following issues:

EXHIBIT B
Significant Deficiencies

- CNCS did not follow its Debt Management Policy by writing off AR items delinquent for two years or more. We identified approximately \$2 million in AR balances as of June 30, 2019, that were not written-off or should have been included in the allowance for doubtful accounts (allowance) calculation.
- CNCS did not update its allowance methodology since 2011 to reflect the requirements in its 2017 Debt Management Policy.
- CNCS did not update its assumptions used in the allowance calculation based on its current AR collection patterns.

We recommend that CNCS:

64. Reconcile the Accounts Receivable subsidiary ledger to the general ledger monthly. (repeat)
65. Reevaluate the policies and procedures for calculating the allowance for doubtful accounts. Related policies and procedures should include: (a) CFO Office's staff's periodic review of the accounts receivable aging report, (b) assessment of the collectability of outstanding balances based on the age of the debt, collections attempted and received thus far and other information about the debtor and (c) determination for possible write-offs. (repeat)
66. Revise the Allowance for Doubtful Accounts methodology to be consistent with the Debt Management Policy. (repeat)
67. Develop a process and proactively monitor and follow-up on delinquent accounts receivables. Document any procedures performed and results reached as part of the follow-up process. (new)
68. Track and revise collection efforts based on data analysis to understand vendor payment characteristics. A reasonable timeframe for write-offs should be established for accounts receivable without any activity. Once an outstanding receivable is deemed uncollectible, it should be written off in accordance with management's established policy. (repeat)
69. Establish a documented process between accounting and the Office of Chief Risk Officer (OCRO) to ensure that key controls related to the Accounts Receivable cycle are properly identified and implemented. These key controls should be considered for testing as part of OCRO's annual internal control assessments. (new)

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

1. Single Audit Compliance

As part of single audit compliance testing for June 30, 2019, we randomly selected a sample of 35 grantees that expended \$750,000 or more of CNCNS funds during FY 2018. We identified the following exceptions:

- For one grantee, CNCNS did not follow-up timely after a grantee that was late in submitting its single audit report to the Federal Audit Clearinghouse (FAC). The audit report was submitted 3 months and 30 days late. CNCNS did not follow-up with the grantee until the audit report was already 3 months and 2 days late. CNCNS did not provide any documentation as to the cause for its delay in following up or the cause for why the grantee was late in submitting the audit report. CNCNS does not have a process in place to promptly identify those CNCNS grantees that are late in submitting their single audit reports to FAC so that CNCNS could follow-up to ascertain the cause for the delay, confirm report submission date, and ensure that the grantee takes corrective action to prevent delays from occurring in future.
- CNCNS did not document an audit extension for another grantee to submit its single audit report to the FAC. The single audit was due to FAC on June 30, 2019. CNCNS indicated that the grantee was affected by Hurricane Maria and that OMB indicated that it could allow the grantee to delay submission for twelve months after the typical audit report submission due date. However, CNCNS provided no documented evidence that it implemented the OMB guidance, as it was not an automatic “pre-approved” extension of single audit report filings for impacted grantees and agencies were still required to take specific actions. CNCNS does not require CNCNS grant staff to document and track implemented OMB approved extensions for submitting single audit reports.

We also found that CNCNS did not adequately monitor the effectiveness of its single audit monitoring process in accordance with Federal regulations as the Federal awarding agency.²² CNCNS, as the Federal awarding agency, did not address in its policy that it tracks all grantees to ensure that they submit their single audit reports by the required due date.

CNCNS's Single Audit Resolution Policy (effective September 8, 2017) did not:

- Reflect the current monitoring process, as CNCNS implemented in April 2019, to track all audit findings related to CNCNS-funded grants, and
- Address CNCNS's responsibilities as the cognizant/oversight agency and how these responsibilities would be carried out.

CNCNS has not fully developed performance metrics to track the CNCNS single audit monitoring process. Performance metrics should address all of CNCNS's responsibilities as the Federal

²²Code of Federal Regulations (CFR) Title 2, §200.513 Responsibilities, (c)(1)-(3).

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

awarding agency and the cognizant/oversight agency. As a result, CNCS has not developed a complete baseline regarding its required grant monitoring performance related to single audits. As the cognizant/oversight agency, CNCS would also have a performance metric to assess the quality of the single audits under its purview. CNCS has also not fully identified performance target goals. CNCS maintains a Single Audit Resolution Tracker spreadsheet that is comprised of grantees with single audit findings related to CNCS funding. However, the information is very limited in scope and lacks information necessary for CNCS to fully assess the effectiveness of the single audit monitoring process.

We recommend that CNCS:

70. Develop, implement and document procedures to identify all CNCS grantees that are required to submit single audit reports with their due dates. (new)
71. Develop, implement and document procedures on timely follow-up for those grantees whose audits have become past due, and to ascertain why report submission was late, when the audit report will be submitted to the Federal Audit Clearinghouse, and what corrective action has been taken to prevent a report submission delay in future. (new)
72. Develop a practice to capture the single audit data to assess the effectiveness of the single audit report submission for all its grantees. (new)
73. Develop, implement and document procedures for implementing Office of Budget and Management (OMB) approved single audit report submission extensions, so that OMB approved extension approvals are documented and tracked as part of the single audit monitoring process. (new)
74. Update the *Single Audit Resolution Policy* to:
 - Reflect the current monitoring process to track all audit findings related to CNCS-funded grants, and
 - Address CNCS’s responsibilities as the cognizant/oversight agency and how these responsibilities would be carried out. (new)
75. Develop and implement procedures to monitor the effectiveness of the single audit monitoring process in accordance with the Uniform Grant Guidance, 2 Code of Federal Regulation §200.513 Responsibilities, (a) (3) (iv), related to monitoring the effectiveness of single audit findings follow-up and the effectiveness of single audits in improving grantee accountability and in their use by CNCS in making award decisions. (new)

Management’s Reponse to Audit of Consolidated Financial Statements

EXHIBIT D
Management’s Response

Corporation for National and Community Service

NationalService.gov



CNCS Management Response
November 19, 2019

Thank you for the opportunity to respond to the results of your audit of the Corporation for National and Community Service’s (CNCS) consolidated financial statements and the financial statements of the National Service Trust. This is a response to both of those reports. CNCS partially concurs with the conditions and recommendations in the report.

Over the last year, CNCS’s Office of the Chief Financial Officer (OCFO), specifically the Office of Accounting and Financial Management Services (AFMS), invested significant time and effort cleaning historical financial data and responding to previous audit recommendations. CNCS’s efforts resulted in improved quality of our quarterly reports and the establishment of processes and documentation for critical agency financial management functions. There are instances in the auditor’s report where AFMS discovered and corrected errors that are nevertheless included as findings in the report. CNCS is optimistic that future audit reports will reflect more of AFMS’s efforts.

Following recommendations made by the Department of the Treasury, the Office of Management and Budget, and the Federal Accounting Standards Advisory Board, AFMS implemented new Trust liability and obligation processes that were reviewed by an independent third party. CNCS reviewed the latest auditor recommendations for Trust management and will incorporate recommendations where appropriate. However, CNCS does not concur with the auditor’s conclusion that CNCS should include the early, start-up years of the National Service Trust in its projections of future liabilities. CNCS believes its analysis based on more current trends is well-supported and yields more accurate results.

CNCS continues to demonstrate its commitment to improving financial management reporting and operations. This is particularly evident in CNCS’s decision to migrate to shared services for accounting, procurement, travel, and human capital operations. The migration process is underway for the first three service areas with a target go-live date of October 1, 2020. Human capital shared services is anticipated to go live in Spring 2021.

A handwritten signature in blue ink that reads 'R. T. McCarty'.

Robert McCarty
Chief Financial Officer
Corporation for National and Community Service

250 E Street, SW
Washington, D.C. 20525
202-606-5000 | 800-942-2577 | NationalService.gov/contact-us



EXHIBIT E
Status of Prior Year Findings

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

<i>Type of Finding</i>	<i>FY 2018 Finding</i>	<i>FY 2019 Status</i>
Material Weakness	Internal Controls Program	Modified Repeat: Material Weakness
Material Weakness	Financial System and Reporting	Modified Repeat: Material Weakness
Material Weakness	Trust Fund Unpaid Obligations	Modified Repeat as Trust Obligations and Liability Model: Material Weakness
Material Weakness	Trust Service Award Liability	Modified Repeat as Trust Obligations and Liability Model: Material Weakness
Material Weakness	Grants Accrual Payable and Advances	Modified Repeat: Material Weakness
Material Weakness	Undelivered Orders and Accounts Payable – Procurement	Modified Repeat: Material Weakness
Material Weakness	Property and Equipment	Modified Repeat: Material Weakness
Material Weakness	Undelivered Orders - Grants	Modified Repeat: Material Weakness
Material Weakness	Recoveries of Prior Year Obligations	Modified Repeat: Material Weakness
Material Weakness	Other Liabilities	Modified Repeat: Material Weakness
Significant Deficiency	Information Technology Security Controls	Modified Repeat: Significant Deficiency

EXHIBIT E
Status of Prior Year Findings

<i>Type of Finding</i>	<i>FY 2018 Finding</i>	<i>FY 2019 Status</i>
Significant Deficiency	Accounts Receivable and Allowance for Doubtful Accounts	Modified Repeat: Significant Deficiency

Corporation for National and Community Service
Unaudited Consolidated Balance Sheet
As of September 30, 2019
(in thousands)

Assets

Intragovernmental	
Fund Balance with Treasury (Note 2)	\$ 1,346,606
Investments and Related Receivables (Note 3)	756,080
Accounts Receivable, Net (Note 4)	167
Total Intragovernmental	2,102,853
Cash and Other Monetary Assets	4
Advances to Others	68,777
Accounts Receivable, Net (Note 4)	4,345
Property and Equipment, Net (Note 5)	368
Total Assets	\$ 2,176,347

Liabilities

Intragovernmental	
Advances from Others (Note 9)	\$ 8,768
Other Liabilities (Note 10)	2,043
Total Intragovernmental	10,811
Trust Service Award Liability (Note 6)	\$ 375,834
Grants Payable	115,316
Accounts Payable	26,694
Actuarial FECA Liability (Note 8)	6,817
Advances from Others (Note 9)	212
Accrued Annual Leave	4,196
Other Liabilities (Note 10)	9,249
Total Liabilities	\$ 549,129
Net Position	
Unexpended Appropriation	\$ 1,009,773
Cumulative Results of Operations	617,445
Total Net Position	\$ 1,627,218
Total Liabilities and Net Position	\$ 2,176,347

The accompanying notes are an integral part of these statements.

Community for National and Community Services
Unaudited Consolidated Statement of Net Cost
For the Period Ended September 30, 2019
(in thousands)

Gross Program Cost:

AmeriCorps State and National (SN)	
Operating Cost	\$ 606,843
Less: Earned Revenue	(28,071)
Net AmeriCorps SN	<u>578,772</u>
AmeriCorps Volunteers in Service to America (VISTA)	
Operating Cost	206,726
Less: Earned Revenue	(9,693)
Net AmeriCorps VISTA	<u>197,033</u>
AmeriCorps National Civilian Community Corps (NCCC)	
Operating Cost	85,440
Less: Earned Revenue	(13,532)
Net AmeriCorps NCCC	<u>71,908</u>
State Commission	33,995
Senior Corps	169,833
Less: Earned Revenue	(1,144)
Net Senior Corps	<u>168,689</u>
Cost not assigned to programs	17,693
Less: Earned revenues not attributed to programs	(540)
Net Other program cost	<u>17,153</u>
Net Cost of Operations (Note 13)	<u>\$ 1,067,550</u>

The accompanying notes are an integral part of these statements.

Corporation for National and Community Services
Unaudited Consolidated Statement of Changes in Net Position
For the Period Ended September 30, 2019
(in thousands)

Unexpended Appropriations:

Beginning Balance

Unexpended Appropriations - Cumulative	\$ 989,068
Unexpended Appropriations - Prior Period adj	190
Unexpended Appropriations - Prior Period adj - Years preceding	(2,205)
Beginning balance, as adjusted	<u>987,053</u>

Budgetary Financing Sources:

Appropriations - Received	1,082,958
Appropriations - Used	(1,033,093)
Appropriations - Adjusted	<u>(27,145)</u>

Total Budgetary Financing Sources

	<u>22,720</u>
--	---------------

Total Unexpended Appropriations

	<u>1,009,773</u>
--	-------------------------

Cumulative Results from Operations

Beginning Balance

Prior Period adj due to correction of errors	\$ 646,303
Prior Period adj due to correction of errors - years preceding prior year	190
Beginning balance as adjusted	<u>2,205</u>
	<u>648,698</u>

Budgetary Financing Sources

Other Adjustments

Appropriations Used	1,033,093
Offset to Non-Entity Collections	(2,920)
Donations	3

Other Financing Sources (nonexchange)

Imputed Financing Source	5,377
Other Offset to Non-Entity Coll	<u>744</u>

Total Financing Sources

	1,036,297
--	-----------

Net Cost of Operations

	1,067,550
--	-----------

Net Change

	<u>(31,253)</u>
--	-----------------

Cumulative Results of Operations

	<u>617,445</u>
--	-----------------------

Net Position

	<u><u>\$ 1,627,218</u></u>
--	-----------------------------------

The accompanying notes are an integral part of these statements.

Corporation for National and Community Services
Unaudited Combined Statement of Budgetary Resources
For the Period Ended September 30, 2019
(in thousands)

Budgetary Resources

Unobligated balance from prior year budget authority, net (disc and mand)	\$	513,568
Appropriations (discretionary and mandatory)		1,167,924
Spending authority from offsetting collections (discretionary and mandatory)		31,522
Total Budgetary Resources		1,713,014

Status of Budgetary Resources

New Obligations and upwards adjustments (total)		1,366,031
Unobligated Balance, end of year		
Apportioned, unexpired accounts		157,471
Unapportioned, unexpired		67,523
Unexpired unobligated balance, end of year		224,994
Expired unobligated balance, end of year		121,989
Unobligated balance, end of year (total)		346,983
Total Budgetary Resources		1,713,014

Outlays, Net

Outlays, net (total) (discretionary and mandatory)		1,197,757
Distributed Offsetting Receipts		(227,745)
Agency Outlays, net (discretionary and mandatory)	\$	970,012

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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 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 NCCC strengthens communities while developing leaders through direct, team-based national and community service.
- AmeriCorps State Service Commission Support Grants (State Commission Support) offers grants supporting shared federal-state partnership with a central role for governors in designing and implementing national service through governor-supported State Service Commissions.

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.

B. BASIS OF ACCOUNTING AND PRESENTATION

The financial statements and footnotes for FY 2019 are presented on a single year basis. CNCS uses the accrual and budgetary basis of accounting in conformity with the Generally Accepted Accounting Principles (GAAP) for the federal government. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash. Federal budgetary accounting recognizes the obligation of appropriations and other funds upon the establishment of a properly documented commitment.

C. USE OF ESTIMATES

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

in CNCS's financial statements and accompanying notes. CNCS evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that it believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made when facts and circumstances warrant. As future events and their effects cannot be determined with certainty, actual results could differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the liability for service awards, grants payable, accounts payable and payroll as well as adjustments to the grant advances.

D. FUND BALANCE WITH TREASURY

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

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

E. OTHER MONETARY ASSETS

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

F. INVESTMENTS

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

G. PROPERTY AND EQUIPMENT

Property and Equipment is stated at full cost, including all costs related to acquisition, delivery, and installation, less accumulated depreciation/amortization. Normal maintenance and repair costs on capitalized property and equipment are expensed when incurred. CNCS capitalizes properties and equipment with an estimated useful life of two years or more based on the capitalization thresholds policy of the Corporation. Capitalized properties are depreciated or amortized on a straight line over their estimated useful lives ranging from 2 to 10 years.

FINANCIAL SECTION

The CNCS's capitalization policy, *Accounting for Capital Property*, was updated with an effective date August 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.

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

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

H. TRUST SERVICE AWARD LIABILITY

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

I. GRANTS PAYABLE

CNCS awards grants to nonprofit organizations, educational institutions, states, municipalities, and other external organizations. Grants become budgetary obligations, but not liabilities, at the time they are awarded. Although most grantees request funds prior to incurring expenses (Grants Advances), some incur expenditures prior to initiating a request for disbursement, based on the nature of the expenditures. At the end of each quarter, CNCS calculates and reports an estimate of the amount of unreimbursed grantee expenses as grants payable.

CNCS performs a simple linear regression as of the end of each quarter with the amounts paid to grantees (drawdowns) during each quarter as the independent variable (X-axis) and the amount expended by the grantees and reported on the Federal Financial Report (FFR) during each quarter (expenses) as the dependent variable (Y-axis). In this method, a data point is defined for the entire federal funding entity whenever FFRs are required from the grantees. The CNCS used over five years of actual grant drawdowns and expenses data reported on FFR on the linear regression model. Based on the amount of available data used on the model, the CNCS believed that the grantees' expenses incurred but not reported (IBNR) would have been captured as part of the calculation.

The results of this linear regression are that at the end of each quarter, for which the financial statements are being prepared, the linear regression model is used to calculate the cumulative

FINANCIAL SECTION

amount estimated to have been expended by the grant recipient during the respective quarter. The linear regression model uses a trend of the previous quarter's cash drawdowns and expenses, for which historical data is available, and uses the current period's cash drawdowns to estimate the current quarter's expenses. The calculated accrual represents the total financial statement level estimate.

The total calculated accrual estimate is then allocated by each individual grant's percentage of the undelivered obligation to the total undelivered obligation. If such amount is greater than the amount paid out to the grantees during the same period, then the difference is the grants payable balance to be reported. Or, if the calculated amount expended is less than the amount paid out, the difference becomes the grants receivable balance. In this method there would be a single payable or receivable balance for the respective grantee.

J. FEDERAL EMPLOYEE BENEFITS

ACTUARIAL FECA LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees, AmeriCorps NCCC and VISTA members injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for CNCS's employees and members under FECA are determined and paid by the Department of Labor (DOL) and later billed to CNCS. CNCS's actuarial liability for workers' compensation includes costs incurred, but unbilled as of year-end, as calculated by DOL. CNCS reimburses DOL for FECA claims out of current appropriations upon receipt of a bill from DOL.

ANNUAL LEAVE

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

RETIREMENT BENEFITS

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

For employees covered by CSRS, CNCS contributes 7.0 percent of their basic pay. For those employees covered by FERS, CNCS contributes an average of 11.2 percent of their gross pay towards retirement. Employees can 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

FINANCIAL SECTION

contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP program but will not receive either CNCS's automatic or matching contributions.

K. RESTATEMENTS

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

NOTE 2 – FUND BALANCE WITH TREASURY

The CNCS is funded with appropriations from General Funds and Trust Funds. While amounts appropriated from the General Fund of the Treasury are included in the FBWT, Trust Funds investments are not. The Trust Funds investments are redeemed, as needed to meet the cash disbursement needs, at which time the funds are transferred from the Trust Fund to FBWT. The Trust Fund is for providing education award or student loan interest forbearance expense, whereas the General Fund is for operating expenses. The CNCS also uses Deposit Funds for withholding taxes on payments made to contractors. The FBWT as of September 30, 2019 is:

	<i>Unaudited (in thousands)</i>
Fund Balances	
Trust Funds – National Service Trust	\$ 243,892
Trust Funds – Gifts and Contribution	412
General Funds	1,099,243
Deposit Funds	3,059
Total	1,346,606
Status of Fund Balance with Treasury	
Unobligated Balance Available	487,950
Obligated Balance not yet Disbursed	855,597
Non-Budgetary FBWT	3,059
Total	\$ 1,346,606

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

NOTE 3 – INVESTMENTS

By law, CNCS may invest the funds of the National Service Trust in interest-bearing Treasury securities guaranteed by the United States as to principal and interest. CNCS's investments are valued at cost and adjusted for the amortization of premiums and discounts. Investment are held to

FINANCIAL SECTION

maturity. Interest income are paid by Treasury semi-annually. As of September 30, 2019, Investment composition is:

<i>Unaudited (in thousands)</i>					
U.S. Treasury Marketable Securities	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Bills	\$ 110,862	\$ 462	\$ -	\$ 111,324	\$ 111,599
Notes	640,540	3,274	942	644,756	648,037
Total	\$ 751,401	\$ 3,736	\$ 942	\$ 756,080	\$ 759,636

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable represents amounts due to CNCS primarily under federal and nonfederal reimbursable agreements, grantee audit resolution determinations, outstanding travel advances due from employees and Criminal History Check requirements. An allowance for doubtful accounts is established for reporting purposes based on experience. The Accounts Receivable as of September 30, 2019 is:

<i>Unaudited (in thousands)</i>	
Intragovernmental:	
Accounts Receivable	\$ 167
Non-Intragovernmental:	
Accounts Receivable	5,666
Allowance for uncollectible	(1,321)
Total	4,345
Accounts Receivable, Net	\$ 4,512

NOTE 5 – PROPERTY AND EQUIPMENT, NET

CNCS components of property and equipment as of September 30, 2019 are as follows:

<i>Unaudited (in thousands)</i>				
	Service Life (years)	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 - 10	\$ 1,264	\$ (896)	\$ 368
Total Property and Equipment, Net		\$ 1,264	\$ (896)	\$ 368

NOTE 6 – TRUST SERVICE AWARD LIABILITY

FINANCIAL SECTION

Individuals who successfully complete terms of service in AmeriCorps programs earn education awards, which can be used to make payments on qualified student loans or for educational expenses at qualified educational institutions. The education award generally must be used within seven years of completion date of an approved term of national service. If the education award is transferred to an eligible individual or is a Summer of Service award (which was available to youth enrolled in grades 6 through 9), the use period is ten years. These awards, as well as interest forbearance payments on qualified student loans during the period members perform their service, are paid from the National Service Trust Fund. The Service Award Liability as of September 30, 2019 is:

	<i>Unaudited (in thousands)</i>
Cumulative Education Awards Earned	\$ 3,906,180
Cumulative Interest Forbearance Earned	126,057
Total Cumulative Awards Earned	<u>4,032,237</u>
Less: Discount for Usage and Statistics	<u>(724,124)</u>
Total Estimated Service Award Liability	3,308,113
Less: Cumulative Awards Paid	<u>(2,998,015)</u>
Total Liability for Awards Earned	310,098
Total Liability for Awards not yet Earned	<u>65,736</u>
Total	\$ <u><u>375,834</u></u>

NOTE 7 – LEASES

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

<i>Unaudited (in thousands)</i>					
<u>Fiscal Year</u>	Facilities				Total
	<u>Space</u>	<u>Vehicles</u>	<u>Other</u>		
2020	\$ 9,788	\$ 790	\$ 148	\$	10,726
2021	10,091	799	66	\$	10,956
2022	10,403	808	66	\$	11,277
2023	10,726	818	66	\$	11,610
2024	11,058	828	66	\$	11,952
Total	\$ <u><u>52,066</u></u>	\$ <u><u>4,043</u></u>	\$ <u><u>412</u></u>	\$	<u><u>56,521</u></u>

NOTE 8 – ACTUARIAL FECA LIABILITY

FINANCIAL SECTION

CNCS's actuarial liability for future workers' compensation benefits under FECA was \$6.8 million (unaudited) as of September 30, 2019. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. CNCS's Actuarial FECA liability is determined by DOL.

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), Department of Veterans Affairs (VA), Department of Justice (DOJ), Department of Housing and Urban Development (HUD), and Department of Agriculture (USDA) related reimbursable activities. Advances as at September 30, 2019 is:

	<i>Unaudited (in thousands)</i>	
Intragovernmental		
Advances from Others	\$	8,768
Non-Intragovernmental		
Advances from Others		212
Total	\$	<u>8,980</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 claim 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, 2019 is:

	<i>Unaudited (in thousands)</i>		
	Non- Current s	Current s	Total Liabilities
Intragovernmental:			
Unfunded FECA	\$ -	\$ 1,846	\$ 1,846
Employee Benefits and Payroll Taxes	-	197	197
Total Intragovernmental Liabilities	-	2,043	2,043
Non-Intragovernmental:			
Member Payroll Withholding Taxes	-	2,842	2,842
Accrued Funded Payroll & Benefits	-	2,583	2,583
Accrued Volunteer Benefits	-	3,059	3,059
Accrued Unfunded Member Benefits	757	-	757
Other Accrued Expenses	-	8	8
Total Non-Intragovernmental Liabilities	757	8,492	9,249
Total Other Liabilities	\$ 757	\$ 10,535	\$ 11,292

NOTE 11 – FUNDS FROM DEDICATED COLLECTIONS

FINANCIAL SECTION

Funds from dedicated collections are presented on a combined basis. The table below shows the balances as of September 30, 2019.

	<i>Unaudited Total Funds from Dedicated Collections (in thousands)</i>
Balance Sheet as of September 30	
Assets	
Fund Balance with Treasury	\$ 243,892
Investments and Related Receivables	756,080
Total Assets	\$ 999,972
Liabilities	
Trust Service Award Liability	\$ 375,834
Net Position	
Cumulative Results of Operations	624,138
Total Liabilities and Net Position	\$ 999,972
Statement of Net Cost for the Period Ended September 30	
Gross Program Costs	242,830
Less Earned revenue	18,593
Net Cost of Operations	\$ 224,236
Statement of Changes in Net Position for the Period Ended September 30	
Cumulative Results from Operations	\$ 623,534
Less Net Cost of Operations	(604)
Net Position	\$ 624,138

NOTE 12 – APPROPRIATIONS RECEIVED BY THE NATIONAL SERVICE TRUST

As of September 30, 2019, the National Service Trust received \$206.8 million (unaudited). Under the provisions included in its annual appropriations and under 42 U.S.C. 12601a, CNCS is also authorized to transfer additional amounts from subtitle C program funds to the National Service Trust to support the activities of national service participants.

NOTE 13 – COST AND EXCHANGE REVENUE

Costs for each sub-program are reported on the Statement of Net Cost.

AmeriCorps engages members in intense, impact-oriented service to address local community needs in areas of education, healthy futures, environmental stewardship, economic opportunity, disaster services, and assisting veterans and military families. AmeriCorps includes the State and National,

FINANCIAL SECTION

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

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

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

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

Innovation, Demonstration, & Assistance Activities (ID&A Activities) include grants to support and encourage new forms of service and volunteering, including the Social Innovation Fund (SIF). The primary objective of the SIF is to improve the lives of people in low-income communities by mobilizing public and private resources to grow innovative nonprofit organizations that have evidence of compelling impact in the areas of economic opportunity, youth development, and healthy futures. No indirect costs have been allocated to the Innovation, Demonstration, & Assistance Activities component.

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

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

NOTE 14 – NATIONAL SERVICE AWARD EXPENSE

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

CNCS estimates the expense for national service awards based on the increase in its cumulative service award liability during the year (see Note 6). The total service award liability as of September 30, 2019, respectively, has been adjusted to reflect the fact that earned awards are not always used.

	<i>Unaudited (in thousands)</i>
Estimated Education Awards	\$ 231,098
Estimated Interest Forbearance	11,733
National Service Award Expense	\$ 242,830

NOTE 15 – CONTINGENCIES

CNCS is a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against CNCS. In the opinion of CNCS’s management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact the financial statements of CNCS.

Certain legal matters to which CNCS is a party may be administered and, in some instances, litigated and paid by other federal agencies. Generally, amounts paid more than \$2.5 thousand for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from the Treasury Judgment Fund (TJF). Although the ultimate disposition of any potential TJF proceedings cannot be determined, management does not expect that any liability or expense that might ensue would be material to CNCS’s financial statements.

NOTE 16 – SUBSEQUENT EVENTS

CNCS has evaluated subsequent events through November 7, 2019, which is the date these financial statements were available to be issued. Because of its evaluation, CNCS has determined that no subsequent events need to be recognized or disclosed.

NOTE 17 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

CNCS’s undelivered orders as of September 30, 2019 are as follows:

	<i>Unaudited (in thousands)</i>
Intragovernmental	
Undelivered Orders – Unpaid	\$ 7,984
Undelivered Orders – Paid	458
Total Intragovernmental Undelivered Orders	<u>8,442</u>
Non-Intragovernmental	
Undelivered Orders – Unpaid	847,613
Undelivered Orders – Paid	69,063
Total Non-Intragovernmental Undelivered Orders	<u>916,676</u>
Total Undelivered Orders	\$ <u>925,118</u>

NOTE 18 – EXPLANATION OF THE DIFFERENCES BETWEEN STATEMENT OF BUDGETARY RESOURCES AND THE PRESIDENTS BUDGET

FINANCIAL SECTION

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

A reconciliation of the FY 2018 Statement of Budgetary Resources to the FY 2020 President’s Budget (FY 2018 actual amounts) for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays is presented below:

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
<i>Unaudited (in millions)</i>				
Combined Statement of Budgetary Resources	\$ 1,648	\$ 1,162	\$ 215	\$ 1,178
Difference (Expired Funds)	(111)	(7)		
Other				(10)
Budget of the U. S. Government	\$ 1,537	\$ 1,155	\$ 215	\$ 1,188

**Independent Auditors' Report on National Service Trust Funds
Financial Statements**

**CORPORATION FOR NATIONAL
& COMMUNITY SERVICE**

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE CORPORATION FOR
NATIONAL AND COMMUNITY SERVICE'S
FISCAL YEAR 2019
NATIONAL SERVICE TRUST FUND
FINANCIAL STATEMENTS

OIG Report 20-02

Prepared by:

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



This report was issued to Corporation management on November 20, 2019. 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 20, 2020, and complete its corrective actions by November 20, 2020. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



November 20, 2019

MEMORANDUM TO: Barbara Stewart
Chief Executive Officer

FROM: Monique P. Colter /s/
Assistant Inspector General for Audit

SUBJECT: Audit of the Corporation for National and Community Service's
Fiscal Year 2019 National Service Trust Fund Financial Statements,
OIG Report 20-02

We contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the Corporation for National and Community Service's (CNCS) National Service Trust Fund financial statements (Trust financial statements) as of September 30, 2019, and for the year then ended. The contract required that the audit be performed in accordance with the United States generally accepted government auditing standards and applicable Office of Management and Budget audit guidance.

In its audit of the fiscal year 2019 Trust financial statements, CLA reported:

- **Disclaimer of Opinion:** CNCS was unable to provide adequate evidential matter to support a significant number of transactions and account balances due to inadequate processes and controls to support transactions and estimates, and inadequate 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.
- **Three material weaknesses and one significant deficiency** in Trust's internal control over financial reporting. These issues included:
 - **Material Weaknesses:**
 1. Internal Controls Program;
 2. Financial System and Reporting; and
 3. Trust Obligations and Liability Model.
 - **Significant Deficiency:**
 1. Information Technology Security Controls.

- CLA performed applicable tests of CNCS's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts and disclosures. CLA noted Single Audit Compliance as an instance of noncompliance that is required to be reported.

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

In connection with the contract, we reviewed CLA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with the 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 7, 2019, and the conclusions expressed therein. However, our review disclosed no instances where CLA did not comply, in all material respects, with the United States generally accepted government auditing standards.

As Stated,

cc: Lisa Guccione, Chief of Staff
Timothy Noelker, General Counsel
Brian Finch, Acting Chief Operating Officer
Robert McCarty, Chief Financial Officer
Dr. Pape Cissé, Chief Information Officer
Jill Graham, Acting Chief Risk Officer
Rachel Turner, Audits and Investigations Program Manager
Mia Leswing, Principal-in-Charge, CliftonLarsonAllen LLP



CliftonLarsonAllen LLP
CLAconnect.com

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 financial statements of the Corporation for National and Community Service (CNCS), National Service Trust Fund (Trust), which comprise the balance sheets as of September 30, 2019, the statements of net cost and changes in net position, the combined statements of budgetary resources, for the years then ended, and the related notes to the financial statements (referred to herein as financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 19-03). 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 years ended September 30, 2019, due to inadequate processes and controls to support transactions and estimates, and inadequate records to support accounting for transactions in accordance with the U.S. generally accepted accounting principles.



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.

Emphasis of Matter

As discussed in Note 1B to the financial statements, CNCS is presenting a single year financial statements in FY 2019 instead of comparative financial statements, which is required in the applicable guidance from Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. Our opinion is not modified with respect to this matter.

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

Internal Control over Financial Reporting

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

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

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

1. Internal Controls Program (FMFIA)
2. Financial System and Reporting

INDEPENDENT AUDITORS' REPORT (Continued)

3. Trust Obligations and Liability Model (reported in the prior year as two material weaknesses - Trust Fund Unpaid Obligations and Trust Service Award Liability)

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 to be significant deficiency.

4. Information Technology Security Controls

Also, as required by OMB Bulletin No. 19-03, we compared the material weaknesses disclosed during the audit with those material weaknesses reported in CNCS's FMFIA report that relate to financial reporting. We identified the following material weaknesses that were not disclosed by CNCS in its FMFIA report:

- Material weakness number 1- Internal Controls Programs
- Material weakness number 2- Financial System and Reporting

We consider CNCS's failure to detect and report material weaknesses a material weakness in CNCS's internal control.

Had we been able to obtain sufficient appropriate audit evidence to express an opinion on the Trust 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

As part of obtaining reasonable assurance about whether CNCS's Trust financial statements are free from material misstatement, we performed tests of its compliance with 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.

The results of our tests disclosed instances of noncompliance or other matters, described below and in Exhibit C, that are required to be reported in accordance with Government Auditing Standards.

Management's Responsibility for Internal Control and Compliance

CNCS management is responsible for (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, (2) providing a statement of assurance on the

INDEPENDENT AUDITORS' REPORT (Continued)

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

CNCS's Response

CNCS, in its response to the draft audit report, included in Exhibit D, did not comment on all findings except a general comment that "AFMS discovered and corrected errors that are nevertheless included as findings in the report" and a non-concurrence "with the auditor's conclusion that CNCS should include the early, start-up years of the National Service Trust in its projections of future liabilities. CNCS believes its analysis based on more current trends is well-supported and yields more accurate results." CNCS stated that it will incorporate CliftonLarsonAllen's (CLA's) recommendations "where appropriate," without elaboration.

Auditors' Response

With one exception, CNCS did not respond to the specific findings in the audit report, making further auditor comment unnecessary. With respect to the National Service Trust, CNCS's response takes issue with a "conclusion" that the audit report does not contain. Instead, CLA noted that particular assumptions that were omitted from the Trust liability model could have a significant impact on the accuracy of the estimated liability and the sufficiency of the amounts obligated and available to pay those liabilities when due. The issue is unrelated to the inclusion of "early, start-up years" in the Trust model.

Status of Prior Year Findings

The status of findings in prior year Independent Auditors' Report, dated November 5, 2018, is included in Exhibit E.

INDEPENDENT AUDITORS' REPORT (Continued)

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

CLIFTONLARSONALLEN LLP
Arlington, Virginia
November 7, 2019

EXHIBIT A
Material Weaknesses

1. Internal Controls Program (modified repeat material weakness)

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

In Fiscal Year (FY) 2019, CNCS closed out four prior-year recommendations and implemented certain corrective actions to improve its system of internal control. However, even with the corrective actions, the system of internal control was not effective. It failed to identify a number of pervasive material weaknesses that we found in financial reporting and in specific material line items on the financial statements.

Internal control deficiencies included:

- CNCS's internal control program failed to identify the following two material weaknesses in its Chief Executive Officer's (CEO's) assurance statement that we reported in both FYs 2018 and 2019 financial statements audit results:
 - Material weakness number 1- Internal Controls Programs¹
 - Material weakness number 2- Financial System and Reporting²
- CNCS's CEO assurance statement stated that CNCS could provide reasonable assurance that CNCS's internal control over operations, reporting and compliance was operating effectively as of September 30, 2019, except for the material weaknesses that CNCS identified. However, even for those material weaknesses that CNCS identified, CNCS did not address their potential impact on the financial statements or identify their root causes. In addition, CNCS did not provide us with evidence to support this modified assurance statement. Our review disclosed that the modified assurance statement was not justified by the results of CNCS's own internal control testing. The assurance statement may mislead stakeholders on the status of CNCS's internal controls over operations, reporting and compliance that could affect decisions impacting CNCS.

¹ CNCS reported this area as a significant deficiency. CNCS's justification only covers the untimely assessment of internal controls to allow control owners to correct deficiencies prior to fiscal year end date. It did not address other prior-year findings.

² CNCS only reported this area as a significant deficiency. CNCS did not consider the material weakness findings from the prior year's financial statement audit.

EXHIBIT A
Material Weaknesses

- CNCS did not effectively implement corrective action plans to remediate prior-year financial statement audit findings to resolve any of the ten material weaknesses³ and two significant deficiencies identified in last year’s financial statement audit. All ten of those material weaknesses and two significant deficiencies persisted during FY 2019.
- CNCS’s entity-level control assessment noted that the 17 entity-level control principles⁴ were rated low risk overall, with only five rated a medium risk. However, we found that the basis for some of the ratings was not fully supported by the documentation of CNCS’s assessment, or inconsistent with the results of our findings. Directors of the functional offices participating in the entity-level control assessment did not have a full understanding of the internal control principles and how those principles relate to their operations. In addition, they did not consider outstanding audit recommendations related to their operations during the process of assessing entity-level controls.
- For those material weaknesses that CNCS identified, CNCS did not address the potential impact on the financial statements or identify the root cause for those deficiencies.
- CNCS identified financial reporting as a significant deficiency, although we have reported it as a material weakness since the FY 2017 audit.
- CNCS’s Financial Reporting Business Process Narrative indicates that general ledger account or financial statement line item balance changes that meet or exceed 10 percent and \$1 million will require a detailed explanation as part of its balance fluctuation analysis. However, our testing confirmed that CNCS actually used 10 percent and \$7 million as a fluctuation analysis threshold. Further, CNCS’s internal control testing indicated that the fluctuation analysis was properly performed in the third quarter. We continued to identify internal control deficiencies regarding CNCS’s balance fluctuation analysis with inadequate documentation; use of generic explanations on significant account fluctuations; and errors in the formula used to calculate the fluctuations. See Financial System and Reporting material weakness below for details.
- CNCS’s Office of Information Technology) failed to disclose on its assurance statement the following exceptions identified in CNCS’s internal control objectives for CGI – Momentum, CNCS’s financial system:
 - *Control Objective: To ensure CNCS limits virtual access of CGI networks and user systems to authorized (employees) parties only.* CNCS’s Internal Control Program (ICP) noted that none of the Momentum accounts for employees who departed CNCS during the period of July 1, 2018, through March 31, 2019 were disabled from Momentum.

³ The two prior year material weaknesses, Trust Fund Unpaid Obligations and Trust Service Award Liability, were consolidated in one material weakness, Trust Obligations and Liability Model, for FY 2019 audit.

⁴ Per GAO’s *Standards for Internal Control in the Federal Government*.

EXHIBIT A
Material Weaknesses

- *Control Objective: Ensure CNCS limits virtual access of CGI networks and user systems to authorized (employees) parties only and reports any changes to CGI in a timely manner.* ICP indicated that no quarterly reviews of user-profiles have been conducted since July 2018. Momentum is at risk of allowing access to parties that do not require system access.

CNCS's testing worksheet identified these exceptions as high-risk control deficiencies. However, in CNCS's summary assessment, one of those control weaknesses was incorrectly reported as a medium risk. As a result, the severity of the internal control weakness was understated. We disclosed similar findings as part of the information technology security controls significant deficiency.

- CNCS's Data Quality Plan (DQP) did not identify key controls over financial and award data reporting. The DQP also did not document CNCS's process for identifying and assessing risks related to spending data. As a result, there was no testing plan and identification of high-risk reported data. The DQP also did not identify the risk of misreporting, the impact of the risk, and when those risks will be addressed. The DQP only established responsibilities and procedures related to the quarterly data submission. The DQP also was not addressed within the context of the appropriate functional office's assurance statement to the CEO or in the CEO's assurance statement.
- CNCS, in assessing the information security risks on its external systems managed by service providers, did not address the gap periods between the system audit coverage ending dates and CNCS's fiscal year-end date (September 30, 2019), ranging from 30 to 183 days. Specifically, CNCS did not review external system audit reports timely after the reports were issued to allow time to follow up concerning the gap in audit coverage. CNCS did not establish a requirement to obtain a gap letter from its external system service providers to obtain information regarding material changes in internal controls affecting the systems or perform timely review of the external system service providers' audit reports.
- CNCS did not complete a risk register that records identified risks at the mission and business process level or Tier 2 as defined by the National Institute of Standards and Technology. CNCS has delayed the preparation of a new risk register from February 2019 to December 2019. The existing risk register, the first one prepared by CNCS, did not meet all of the applicable requirements, as it simply collected inputs of staff, not all of whom had a clear understanding of risk principles. Leadership from various CNCS functional offices continue to develop the risk register at the mission and business process levels. However, with the recent departure of the Chief Risk Officer and other key personnel, the deployment of the risk register in December 2019 is at risk.

While we did not audit the internal control over programmatic operations, we also take note that CNCS has not completed or implemented corrective actions to address the grant monitoring

EXHIBIT A
Material Weaknesses

weaknesses reported by GAO⁵ and by CNCS-OIG.⁶ These open recommendations relate to the accuracy of CNCS's grant risk assessment and the design and effectiveness of its grant management and monitoring. The absence of sound monitoring of CNCS's core business, which accounts for 75 percent of its operating budget, represents a potentially critical gap in the internal control over operations.⁷

OMB Circular No. A-123 states that agency management should provide a statement of *no assurance* when there are either "no processes in place or *pervasive material weaknesses*"⁸ (emphasis added). It also requires management to continuously monitor, assess, and improve the effectiveness of internal control associated with those internal control objectives identified as part of their risk profile to support the annual assessment and report on internal control as required by the FMFIA.⁹ Management is required to regularly review risk to ascertain whether the risk profile has changed and gain assurance that risk management is effective or whether further action is necessary. Management must have processes in place to assess whether risks continue to exist, new risks have emerged and the impact of those risks in providing assurance on the effectiveness of controls.¹⁰

In summary, CNCS does not have a reliable, mature internal control program sufficient to comply with government-wide standards. The absence of appropriate internal controls makes CNCS's financial reporting unreliable.

We recommend that CNCS:

1. Establish a formal process that provides the CEO with comprehensive information on the results of CNCS's internal control assessment, status of open material weaknesses and significant deficiencies from prior year's financial statement audits, and information on issues that could be reported as a significant deficiency or a material weakness in the current year's financial statement audit for consideration in preparing the CNCS assurance statement. This should also include the status of open recommendations from other audits that have a significant impact on CNCS's operations or financial reporting.
(new)

⁵ GAO Report GAO-17-90, *Grants Management: Monitoring Efforts by Corporation for National and Community Service Could Be Improved*, March 21, 2017

⁶ CNCS-OIG Semiannual Report To Congress 19-01, Appendix A, Unimplemented Recommendations.

⁷ CNCS's internal controls assessment of grant monitoring currently focuses on confirming grant compliance (e.g., timeliness and completeness of documentation) rather than assessing effectiveness of grant management.

⁸ OMB Circular No. A-123, Section VI. E.

⁹ OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, IV. Assessing Internal Control.

¹⁰ OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, II. Establishing Enterprise Risk Management in Management Practices, C. Implementation.

EXHIBIT A
Material Weaknesses

2. Provide training to CNCS officials participating in the entity-level control assessment to ensure that they have a full understanding of the internal control principles and how these principles relate to their operations. The training shall also address how the outstanding audit recommendations concerning their operations should be considered when assessing the entity-level controls. (new)
3. Revise the *CNCS Statement of Assurance Preparation and Submission Guidance* (March 2019) to:
 - a. Require the functional offices to consider external and internal audits and investigations in identifying and reporting on control deficiencies.
 - b. Require the functional offices to identify the impact that the material weakness or significant deficiency has on the financial statements or on CNCS's operations in their assurance statements. (new)
4. Revise the CNCS Financial Reporting Testing Plan to include verifying that the fluctuation analyses are conducted properly within the required thresholds. (new)
5. Provide training to appropriate CNCS personnel regarding the purpose of the Data Quality Plan. (new)
6. Update and maintain the Data Quality Plan in accordance with OMB Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk* (M-18-16, June 6, 2018), and subsequent amendments. (new)
7. Update CNCS's *Standard Operating Procedure: Statement on Standards for Attestation Engagements (SSAE) 18 Report Review* to explain how CNCS will address the SSAE 18 audit reporting gaps for its external systems' service providers and establish time requirement for conducting the SSAE 18 report reviews. (new)

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

CNCS's financial reporting was hindered by limitations in its financial system (Momentum) and the timing and difficulties arising from limited accounting staff, lack of documentation to support accounting transactions, and inadequate internal controls. CNCS's efforts to identify, adjust and reconcile unsupported balances, while attending to the normal business operations, could not be completed in FY 2019 and ultimately prevented CNCS from providing auditable financial statements. These limitations contributed to an environment that forced CNCS to adopt temporary fixes rather than complete solutions to address pervasive longstanding issues.

Effective controls in financial reporting are critical to ensure that financial information is adequate, accurate and reliable, so that Congress and the general public can hold CNCS accountable for the expenditure of taxpayers' money. CNCS's financial reporting controls were

EXHIBIT A
Material Weaknesses

either not properly designed or not implemented effectively. Repeated financial reporting issues from prior years continued in FY 2019. This resulted in unreliable financial information, including the failure to record significant accounting transactions and prepare complete and accurate financial statements.

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

- A. Lack of internal controls related to the preparation and review of CNCS's financial accounting and reporting process;
- B. Systemic deficiencies in the core financial system;
- C. Improper design of internal controls for the use of Standard Vouchers and Journal Vouchers; and
- D. Financial statements not prepared in accordance with generally accepted accounting principles (GAAP) and OMB Circular No. A-136.

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

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

A1. Internal control deficiencies in the preparation of the financial statements and review of the trial balance

Financial reporting weaknesses previously reported continued to exist in FY 2019 despite the efforts made by CNCS staff to remediate prior-year conditions. CNCS was able to address legacy stale balances and improve internal controls over the cost allocation process. However, substantial additional improvements are needed in CNCS's control environment. We identified the following deficiencies in FY 2019:

- a. There were errors in the Government-wide Treasury Account Symbol (GTAS)¹¹ submission process that went undetected by CNCS's quality control process. For example, CNCS did not record the \$150 million rescissions enacted in the 2019 Appropriation Act on September 28, 2018. CNCS explained that it had been waiting for OMB guidance from the third quarter GTAS submission prior to recording the rescission. However, CNCS was unable to provide corroborating evidence after multiple requests from us. The only correspondence provided to us was a November 1, 2019 email showing that OMB identified CNCS's failure to record the rescission

¹¹ GTAS system is used by agencies to report budget execution information and proprietary financial reporting information to the Department of the Treasury.

EXHIBIT A
Material Weaknesses

during CNCS's September 2019 GTAS submitted on October 29, 2019. In another instance, CNCS recorded a \$2.2 million erroneous adjustment in an attempt to pass the FY 2019 first quarter GTAS submission. CNCS was unable to support the cause of the error.

- b. CNCS did not implement prior-year recommendations to remediate control weakness in its financial reporting process. CNCS's monthly trial balance review was incomplete and ineffective. CNCS did not properly research, follow up and effectively document explanations for known and recurring account balance differences, including abnormal account balances. These errors resulted from incorrect core accounting system (Momentum) configuration. Accordingly, there were discrepancies between the budgetary and proprietary relationship in which CNCS should analyze. The budgetary-to-proprietary analysis (tie point) was incomplete as significant variances identified were not researched to assess the reasonableness of related accounts and balances. This high-level analysis allows management to detect anomalies in balances.
- c. Other financial reporting internal control deficiencies include lack of adequate control over the review of the financial statements and corresponding financial statement checklists; significant prior period adjustments without adequate support; significant inconsistencies between CNCS's accounting structure and that required by Treasury Financial Manual; reconciliation differences between CNCS financial statements and its trial balance; and inability to maintain and track trading partner agreements and advances of funds received from inception to close-out.
- d. CNCS did not provide a complete set of its September 30, 2019, consolidated financial statements (including notes) until November 6, 2019, only 13 days before the mandatory reporting deadline of November 19, 2019. CNCS also did not provide a complete set of its September 30, 2019, Trust financial statements (including notes) until November 12, 2019, only 7 days before the mandatory reporting deadline.

Overall, CNCS's control environment did not demonstrate the required discipline to provide readily available information and present reliable and auditable financial statements.

A2. CNCS did not properly perform and document its account balance fluctuation analysis.

CNCS did not perform a complete and reliable fluctuation analysis of its June 30, 2019 account balances. CNCS's documented explanations for significant balance fluctuations were generic and did not address the specific nature of the transactions, change in operations or trends sufficient to show the root causes of the balance fluctuations. Additionally, we identified formula errors in CNCS's fluctuation analysis spreadsheet and significant differences were not addressed due to CNCS's high materiality threshold set for its analysis. CNCS did not provide a basis for the materiality used in the analysis. It also did not document its account balance fluctuation

EXHIBIT A
Material Weaknesses

expectations based on its operating environment, and compare those expectations to the identified significant balance fluctuations for reasonableness or unexpected change.

We recommend that CNCS:

8. Establish a process to maintain executed agreements with Federal trading partners and track all associated costs against the inter-agency agreements from inception until the agreement close-out. (new)
9. Develop comprehensive policies and procedures for the financial statements preparation process and related internal controls. The policies and procedures should address, among other subjects:
 - a. The process to determine and document CNCS's balance fluctuation expectations. Expectations should be documented based on a combination of internal and external operating factors, and program and financial relevant information available.
 - b. The materiality threshold used to determine significant balance fluctuations that require further research should be more conservative than that used by external auditors.
 - c. Detailed process to research significant balance fluctuations. CNCS should research and explain all significant balance fluctuations at the account and transaction level. Maintain and have the supporting documentation readily available.
 - d. Research and retain supporting documents required for any identified account balance differences derived from its abnormal balance review or the tie point analysis.
 - e. Address fatal and non-fatal Government-wide Treasury Account Symbol Trial Balance edit failures.
 - f. Address all balance differences and retain supporting documentation of related research.
 - g. Document and maintain support for all prior period adjustments and changes to Net Position accounts, Cumulative Result of Operations, and Unexpended Appropriations. (repeat)
10. Monitor outstanding balances resulting from financial system configuration issues and fix these issues prior to data migration to the future shared service provider (Department of Treasury's Administrative Resource Center) in FY 2021. While waiting to transition, CNCS should strengthen its current trial balance review including tie-point analysis and review of abnormal balances. (modified repeat)
11. Coordinate with the future shared service provider to ensure that its accounting platform is compatible with CNCS's operations and the type of accounting transactions that the CNCS process. (new)

EXHIBIT A
Material Weaknesses

12. Develop a plan to clean up CNCS's balances prior to migration to the shared service provider's system (Department of Treasury's Administrative Resource Center). The plan should include coordination with the future service provider to review CNCS balances in detail to ensure they are properly supported and can be mapped into the Administrative Resource Center's platform. Maintain all documentation regarding meeting minutes and any mapping of account balances developed as part of the migration effort. (new)

B. Systematic deficiencies in the core financial system

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

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

We recommend that CNCS:

13. Complete its efforts to be fully compliant with the Office of Management and Budget Circular No. A-11, *Preparing, Submitting, and Executing the Budget*. (repeat)
14. Provide mandatory training to CNCS accounting staff on the proper use of object class, sub general ledger accounts, and document/transaction types on all obligation and expense transactions. (repeat)

C. Improper design of internal controls for the use of standard vouchers and journal vouchers

CNCS continues to overuse standard vouchers (SVs) and journal vouchers (JVs) to work around limitations to its accounting system and ineffective financial reporting internal controls. As of June 30, 2019, CNCS recorded SV/JV transactions that approximated \$3.5 billion in absolute value.

The SV transactions definition or posting logic were outdated, inaccurate or inconsistent with the latest Department of Treasury's USSGL guidance, which could result in misstatements in the financial statements.

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CNCS used JVs to address significant recurring financial reporting issues across multiple funds, instead of resolving the underlying root causes of the problems that the JVs are intended to circumvent. In many cases, incorrect JVs were used to correct other JVs which led to misstatements in the financial statements. For example, there were multiple JV transactions recorded by CNCS's Budget Office in error that required additional JVs to correct. CNCS also had issues with separating transactions between direct and reimbursable funds when the main account code for the original transaction is recorded as a direct fund. The commingling of direct and reimbursable funds led to additional adjustments (SV/JV) to pass GTAS edits.

We also identified control deficiencies for the use of SVs/JVs, such as generic SVs/JVs descriptions without specific usage justification and lack of policies and procedures over the use of SVs/JVs. The over-reliance, incorrect usage, and inaccurate SVs/JVs created a high risk of material misstatements in the financial statements.

We recommend that CNCS:

15. Validate and ensure standard vouchers/journal vouchers are properly supported, documented, and are readily available for examination. (modified repeat)
16. Strengthen coordination between Accounting and Financial Management Services and the Office of Budget to ensure that transactions are recorded accurately and timely. (modified repeat)
17. Develop and implement policies and procedures for the standard vouchers/journal vouchers (SV/JV) process that include:
 - a. tracking the sequence of SVs/JVs for completeness;
 - b. appropriate use of SVs/JVs;
 - c. determining and maintaining relevant documentation to support each SV/JV;
 - d. use of specific and accurate SV/JV descriptions; and
 - e. timely review and approval of SVs/JVs for accuracy and propriety. (modified repeat)

D. Financial statements not prepared in accordance with GAAP and OMB Circular No. A-136

CNCS's June 30, 2019 (interim) financial statements were not prepared in accordance with GAAP and OMB Circular No. A-136.¹² Starting in FY 2018, CNCS adopted full compliance with all sections of OMB Circular No. A-136, Sections I, II, III, IV, and V for financial reporting framework. OMB Circular No. A-136 requires comparative financial statements for financial reporting requirements. CNCS, during the fourth quarter of FY 2019, decided to deviate from OMB Circular No. A-136 by presenting a single year financial statements for June 30, 2019 and September 30,

¹² OMB Circular No. A-136 encourages all Government Corporations to comply with the various sections of OMB Circular No. A-136 (Sections I, II, III, IV, and V).

EXHIBIT A
Material Weaknesses

2019 instead of comparative financial statements. However, CNCS elected to follow OMB Circular No. A-136 requirements for other aspects of financial statement presentation.

Certain line items were not complete as CNCS did not apply the necessary guidance established by GAAP to record its accounting transactions. For example, CNCS has not recorded an asset capitalizing the tenant improvement costs since FY 2016 in accordance with GAAP. CNCS explained that it is having difficulty researching the amounts to establish the balance to be capitalized.

We recommend that CNCS:

18. Finalize its research to establish the amount to capitalize for tenant improvement costs and retain proper documentation of the research. While the research is ongoing, CNCS should disclose non-GAAP accounting and the impact on the financial statements. (modified repeat)
19. Evaluate CNCS's compliance with all sections of OMB Circular No. A-136, *Financial Reporting Requirements*, including preparing comparative financial statements and notes to comply with the financial reporting framework for federal government agencies. (modified repeat)

3. Trust Obligations and Liability Model (modified repeat material weakness)

CNCS implemented a new methodology to estimate its Trust obligations and Trust Service Award Liability (TSAL) in the first quarter of FY 2019. A significant change in CNCS's new methodology for FY 2019 was the calculation of the estimated TSAL for members currently earning education awards in accordance with accounting standards. Specifically, we identified both inconsistencies between the assumptions used and how those assumptions were applied in the estimation of the Trust obligations and TSAL. For example, CNCS's Trust obligations and TSAL are predicated on the expectation that education awards earned by members will be paid throughout the course of the award year, rather than as a single payment due on a specific date. However, this assumption was not reflected in CNCS's Net Present Value calculation spreadsheet. Upon revision of CNCS's estimation model to capture the assumption, there was a significant change in the final Trust obligations and TSAL calculations at the end of the third quarter.

We also have concerns with the model's assumptions. CNCS's estimation model does not adequately reflect the increase in the average expenditure over time. The data used by CNCS (completed¹³ data for awards granted from 1994 to 2009) shows an overall long-term trend of increase in utilization of education awards for which is not adequately accounted in CNCS's methodology. In addition, CNCS methodology did not use available current data that if considered would provide a more accurate depiction of future liabilities versus using older years.

¹³ CNCS's methodology considers a program year completed if 99.6 percent of the expenditures would have been made after the ninth program year.

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For example, we noted that the program year 2010 was approximately 99 percent complete and would provide a more accurate prediction of future liabilities versus the older years used in CNCS model from program years 1994 to 2004. By failing to consider these factors, CNCS could misstate its obligations and liabilities.

As in the prior year, we continue to find significant internal control issues with the new estimation model. The Trust Handbook developed by CNCS to document the methodology and assumptions used by management was not completed until late in FY 2019 and continued to contain errors or to omit needed information. For example, we identified inconsistencies in CNCS's internal documentation regarding the materiality in its validation process, which prompted CNCS to correct its Trust Handbook. The continuous and ongoing changes to the Trust Handbook during the audit prevented us from performing necessary and adequate audit procedures to assess the completeness, accuracy, reasonableness, integrity and soundness of the new methodology. The quality controls around the new estimation process were ineffective as CNCS relied on us to identify errors and bring them to management's attention for fixing.

In addition, CNCS used Excel spreadsheets to calculate its Trust obligations and TSAL. As we reported in the prior year audit, the use of this method is prone to human errors as 1) CNCS used a manual cut-and-paste process to transfer data from other system reports to the Trust Obligations and Liability's model; 2) CNCS could override assumptions without adequate justification or documentation; 3) there were formula errors in the calculator used to adjust the balances of Trust obligations and the TSAL, and 4) CNCS used incorrect amounts in its validation calculation that led to misstatements of the Trust obligations and the TSAL.

Finally, CNCS has long relied upon a part-time annuitant to perform the Trust obligations and liabilities model and related calculations. This individual will reach the expiration of his permitted term of employment early in 2020, and CNCS still does not have a succession plan or knowledgeable staff to assume responsibility for this critical task.

We recommend that CNCS:

20. Complete the Trust Accounting Handbook to clearly reflect the assumptions used in the Trust Obligation and Liability Model and the Monthly Obligation and Liability Calculator, including establishing control activities; finalize materiality thresholds applied; update accounting transactions, and clearly identify periods when adjustments will be made regardless of materiality. (new)
21. Develop for a more standardized, secure, and automated method to estimate the Trust obligations and Trust Service Award Liability that ensures minimal human errors. As part of the ongoing CNCS's transition to shared service, coordinate with the service provider to determine methods that would enhance the security and quality of the existing estimation models. (new)
22. Strengthen controls to ensure the Trust modeling is performed by trained personnel to:

EXHIBIT A
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- a. Conduct detailed analysis and validation of data sources.
 - b. Review and ensure the reasonableness of assumptions used and document the rationale behind estimation assumptions.
 - c. Consider changes in conditions or programs that require further research and analysis. Update the assumptions when necessary.
 - d. Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates.
23. Document and implement policies and procedures to include the following:
- a. establish a thorough and robust quality control process to ensure that the Trust Obligation and Liability Model (TOLM) and Monthly Obligation and Liability Calculator (Calculator) are reviewed by qualified CNCS personnel prior to relying on its outputs to record transactions. All errors identified for which management ultimately decided against making updates to the TOLM or Calculator should be documented along with an explanation as to how management arrived at the final decision;
 - b. perform monthly reviews and reconciliations of the recorded new and outstanding obligations to ensure the accounting information is valid and proper;
 - c. review obligation amounts to ensure amounts accurately reflect the status of the obligation;
 - d. review obligations to verify that amounts, timeframe (*i.e.*, grant dates are correctly reflected in the obligation);
 - e. ensure obligations are sufficiently supported (*i.e.*, by documentary evidence); and
 - f. perform complete reconciliations of all outstanding obligations monthly, and ensure any discrepancies identified are promptly researched and resolved. (repeat)
24. Coordinate with the Office of the Chief Risk Officer (OCRO) to properly identify the National Service Trust Fund’s financial reporting risks and incorporate those risks into the OCRO’s annual testing of key controls. (modified repeat)
25. Develop a succession plan to ensure the required expertise is available in anticipation of planned employee turnover, particularly with respect to the complex trust calculations. CNCS needs to:
- a. Train, mentor, and work to retain qualified employees;
 - b. Cross-train employees so that knowledge of the model will reside with multiple staff rather than with one person; and
 - c. Implement a peer review process to carry out the necessary quality control reviews of the Trust Obligation and Liability Model and the Monthly Obligation and Liability Calculator. (repeat)

EXHIBIT B
Significant Deficiency

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

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

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

Our review of IT controls covered general and application controls both at the enterprise and at the facility levels, the Field Financial Management Center, National Civilian Community Corps campuses and State Offices. Our current year audit identified security control weaknesses that were corrected for certain control activities. Examples of CNCS improvements in its IT control environment include: maintaining the security authorization process in accordance with OMB requirements, assessing the information security and privacy risks to the Corporation associated with the use of external information systems, completing the process for aggregating the financial system database security logs into the security event management system.

While CNCS has taken some steps to remediate previously identified information security control weaknesses, its efforts have focused on developing policies and procedures and system security documentation. However, CNCS faces ongoing challenges in the consistent implementation of its information security program and monitoring of security controls. In addition, we identified new and continued to control weaknesses in the information security program that need to be addressed, most importantly pertaining to access controls, configuration management controls, logging, and monitoring controls, organization-wide risk management, personnel screening, and physical access controls. Specifically, we identified enterprise and facility-level findings for each of the following domains:

Configuration Management

- Vulnerabilities related to patch management, configuration management, and unsupported software continue to expose the CNCS network to critical and high severity vulnerabilities. While our independent vulnerability scans indicated that the number of vulnerabilities has decreased slightly since last year, the remaining vulnerabilities continue to be high in volume as well as in severity.

CNCS's vulnerability management program needs to improve to effectively identify, monitor and remediate known vulnerabilities to reduce the risk of security breaches. This includes

EXHIBIT B
Significant Deficiency

monitoring and recording actions taken by the General Support System (GSS) contractor to ensure vulnerability remediation for network devices and servers are addressed or the exposure to vulnerabilities is minimized (Modified Repeat)

- CNCS documented standard baseline configurations only for its Microsoft Windows servers, but not for its databases, network devices, and Web browsers. (Repeat)
- CNCS did not effectively manage its information system inventory resulting in issues related to the completeness and accuracy of the inventory. (New)

Access Control

- CNCS did not effectively manage user accounts and/or passwords for the network, Momentum, My AmeriCorps Staff Portal, and Electronic-Systems for Program Agreements and National Service Participants (eSPAN).
 - Separated users maintained active accounts for Momentum. In addition, although network accounts were disabled, accounts were not removed from the My AmeriCorps Staff Portal Active Directory (AD) Organizational Unit.¹⁴ Access to My AmeriCorps Staff Portal is managed through AD; therefore, if the AD accounts were re-enabled, access to the application would be maintained. (Modified Repeat)
 - CNCS did not disable inactive accounts for the network and My AmeriCorps Staff Portal. (New)
 - CNCS did not perform recertification of Momentum user accounts during the first two quarters of FY 2019 as required by the CNCS policy. (New)
 - CNCS did not disable network and eSPAN accounts when the user's password was not changed in accordance with CNCS policy or the System Security Plan. (New)
- CNCS did not implement multifactor authentication¹⁵ (e.g., PIV card) for local and network access for privileged users. In addition, although multifactor authentication for network access was being implemented for non-privileged users on Microsoft Windows 10 workstations in July 2019, it was not fully enforced by the end of FISMA fieldwork in August 2019. Users were still able to log in with just a user name and password. (Modified Repeat)
- Management at Headquarters and one field office did not ensure adequate physical access controls. (Modified Repeat)
- Wireless network logs at two field offices were not reviewed and analyzed by the campus personnel. (New)

¹⁴ An Organizational Unit is a subdivision in Active Directory to hold users, groups, and computers with designated Group Policy settings and account permissions.

¹⁵ Multifactor authentication requires two or more credentials when logging on to information systems. Credentials include something an individual knows, such as a password, and something an individual possess, such as a Personal Identification Verification (PIV) card or fingerprint.

EXHIBIT B
Significant Deficiency

- Access control issues reported last year related to mobile devices at CNCS field offices were not remediated.¹⁶ (Repeat)

Security Management

- CNCS developed an information system risk register; however, it did not complete a risk register to record identified risks at the mission and business process level, as defined by NIST.¹⁷ (Modified Repeat)
- CNCS did not ensure all Momentum, eSPAN, and My AmeriCorps Staff Portal users completed system access agreements (Rules of Behavior) prior to gaining system access. (New)
- CNCS did not ensure certain employees had the proper background investigations in accordance with the risk associated with their assigned positions. (Repeat)

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

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

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

¹⁶ Although we did not revisit CNCS field offices where we originally found these issues in FY 2017, CNCS confirmed that it had not completed the related corrective actions. We did not find similar issues from the field offices we visited during FY 2019.

¹⁷ NIST Special Publication 800-39, Revision 1, *Managing Information Security Risk Organization, Mission, and Information System View*, specifies an integrated risk management process three-tiered approach for managing risk across an organization that "addresses risk at the: (i) organization level; (ii) mission/business process level; and (iii) information system level. The risk management process is carried out seamlessly across the three tiers with the overall objective of continuous improvement in the organization's risk-related activities and effective inter-tier and intra-tier communication among all stakeholders having a shared interest in the mission/business success of the organization."

EXHIBIT B
Significant Deficiency

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

We recommend that CNCS:

26. Develop a multi-year strategy to better strategically prioritize and allocate resources to address the new and continuing weaknesses identified and work towards automation, continuous monitoring and consistent application of controls. (repeat)
27. Enforce the agency-wide information security program across the enterprise and improve performance monitoring to ensure controls are operating as intended at all facilities. (repeat)
28. Strengthen and refine the process for communicating CNCS facility-specific control deficiencies to CNCS facility personnel, and coordinate remediation of the control deficiencies. (repeat)
29. 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. (repeat)
30. Strengthen and refine the process for holding contractors accountable for remediation of control deficiencies in CNCS information systems. (repeat)
31. Implement all detailed recommendations in the FY 2019 FISMA Evaluation report. (repeat)

EXHIBIT C
Compliance with Laws, Regulations, Contracts,
And Grant Agreements and Other Matters

1. Single Audit Compliance

As part of single audit compliance testing for June 30, 2019, we randomly selected a sample of 35 grantees that expended \$750,000 or more of CNCNS funds during FY 2018. We identified the following exceptions:

- For one grantee, CNCNS did not follow-up timely after a grantee that was late in submitting its single audit report to the Federal Audit Clearinghouse (FAC). The audit report was submitted 3 months and 30 days late. CNCNS did not follow-up with the grantee until the audit report was already 3 months and 2 days late. CNCNS did not provide any documentation as to the cause for its delay in following up or the cause for why the grantee was late in submitting the audit report. CNCNS does not have a process in place to promptly identify those CNCNS grantees that are late in submitting their single audit reports to FAC so that CNCNS could follow-up to ascertain the cause for the delay, confirm report submission date, and ensure that the grantee takes corrective action to prevent delays from occurring in future.
- CNCNS did not document an audit extension for another grantee to submit its single audit report to the FAC. The single audit was due to FAC on June 30, 2019. CNCNS indicated that the grantee was affected by Hurricane Maria and that OMB indicated that it could allow the grantee to delay submission for twelve months after the typical audit report submission due date. However, CNCNS provided no documented evidence that it implemented the OMB guidance, as it was not an automatic “pre-approved” extension of single audit report filings for impacted grantees and agencies were still required to take specific actions. CNCNS does not require CNCNS grant staff to document and track implemented OMB approved extensions for submitting single audit reports.

We also found that CNCNS did not adequately monitor the effectiveness of its single audit monitoring process in accordance with Federal regulations as the Federal awarding agency.¹⁸ CNCNS, as the Federal awarding agency, did not address in its policy that it tracks all grantees to ensure that they submit their single audit reports by the required due date.

CNCNS's Single Audit Resolution Policy (effective September 8, 2017) did not:

- Reflect the current monitoring process, as CNCNS implemented in April 2019, to track all audit findings related to CNCNS-funded grants, and
- Address CNCNS's responsibilities as the cognizant/oversight agency and how these responsibilities would be carried out.

CNCNS has not fully developed performance metrics to track the CNCNS single audit monitoring process. Performance metrics should address all of CNCNS's responsibilities as the Federal awarding agency and the cognizant/oversight agency. As a result, CNCNS has not developed a

¹⁸Code of Federal Regulations (CFR) Title 2, §200.513 Responsibilities, (c)(1)-(3).

EXHIBIT C
Compliance with Laws, Regulations, Contracts,
And Grant Agreements and Other Matters

complete baseline regarding its required grant monitoring performance related to single audits. As the cognizant/oversight agency, CNCS would also have a performance metric to assess the quality of the single audits under its purview. CNCS has also not fully identified performance target goals. CNCS maintains a Single Audit Resolution Tracker spreadsheet that is comprised of grantees with single audit findings related to CNCS funding. However, the information is very limited in scope and lacks information necessary for CNCS to fully assess the effectiveness of the single audit monitoring process.

We recommend that CNCS:

32. Develop, implement and document procedures to identify all CNCS grantees that are required to submit single audit reports with their due dates. (new)
33. Develop, implement and document procedures on timely follow-up for those grantees whose audits have become past due, and to ascertain why report submission was late, when the audit report will be submitted to the Federal Audit Clearinghouse, and what corrective action has been taken to prevent a report submission delay in future. (new)
34. Develop a practice to capture the single audit data to assess the effectiveness of the single audit report submission for all its grantees. (new)
35. Develop, implement and document procedures for implementing Office of Budget and Management (OMB) approved single audit report submission extensions, so that OMB approved extension approvals are documented and tracked as part of the single audit monitoring process. (new)
36. Update the *Single Audit Resolution Policy* to:
 - Reflect the current monitoring process to track all audit findings related to CNCS-funded grants, and
 - Address CNCS's responsibilities as the cognizant/oversight agency and how these responsibilities would be carried out. (new)
37. Develop and implement procedures to monitor the effectiveness of the single audit monitoring process in accordance with the Uniform Grant Guidance, 2 Code of Federal Regulation §200.513 Responsibilities, (a) (3) (iv), related to monitoring the effectiveness of single audit findings follow-up and the effectiveness of single audits in improving grantee accountability and in their use by CNCS in making award decisions. (new)

Management’s Reponse to Audit of National Service Trust Financial Statements

EXHIBIT D Management’s Response

Corporation for National and Community Service

NationalService.gov



CNCS Management Response
November 19, 2019

Thank you for the opportunity to respond to the results of your audit of the Corporation for National and Community Service’s (CNCS) consolidated financial statements and the financial statements of the National Service Trust. This is a response to both of those reports. CNCS partially concurs with the conditions and recommendations in the report.

Over the last year, CNCS’s Office of the Chief Financial Officer (OCFO), specifically the Office of Accounting and Financial Management Services (AFMS), invested significant time and effort cleaning historical financial data and responding to previous audit recommendations. CNCS’s efforts resulted in improved quality of our quarterly reports and the establishment of processes and documentation for critical agency financial management functions. There are instances in the auditor’s report where AFMS discovered and corrected errors that are nevertheless included as findings in the report. CNCS is optimistic that future audit reports will reflect more of AFMS’s efforts.

Following recommendations made by the Department of the Treasury, the Office of Management and Budget, and the Federal Accounting Standards Advisory Board, AFMS implemented new Trust liability and obligation processes that were reviewed by an independent third party. CNCS reviewed the latest auditor recommendations for Trust management and will incorporate recommendations where appropriate. However, CNCS does not concur with the auditor’s conclusion that CNCS should include the early, start-up years of the National Service Trust in its projections of future liabilities. CNCS believes its analysis based on more current trends is well-supported and yields more accurate results.

CNCS continues to demonstrate its commitment to improving financial management reporting and operations. This is particularly evident in CNCS’s decision to migrate to shared services for accounting, procurement, travel, and human capital operations. The migration process is underway for the first three service areas with a target go-live date of October 1, 2020. Human capital shared services is anticipated to go live in Spring 2021.

Robert McCarty
Chief Financial Officer
Corporation for National and Community Service

250 E Street, SW
Washington, D.C. 20525
202-606-5000 | 800-942-2677 | NationalService.gov/contact-us



EXHIBIT E
Status of Prior Year Findings

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

<i>Type of Finding</i>	<i>FY 2018 Finding</i>	<i>FY 2019 Status</i>
Material Weakness	Internal Controls Program	Modified Repeat: Material Weakness
Material Weakness	Financial System and Reporting	Modified Repeat: Material Weakness
Material Weakness	Trust Fund Unpaid Obligations	Modified Repeat as Trust Obligations and Liability Model: Material Weakness
Material Weakness	Trust Service Award Liability	Modified Repeat as Trust Obligations and Liability Model: Material Weakness
Significant Deficiency	Information Technology Security Controls	Modified Repeat: Significant Deficiency

NATIONAL SERVICE TRUST FUNDS FINANCIAL STATEMENTS

**Corporation for National and Community Service
National Service Trust
Unaudited Balance Sheet
As of September 30, 2019
(in thousands)**

Assets

Intragovernmental

Fund Balance with Treasury (Note 2)	\$ 243,892
Investments and Related Receivables (Note 3)	756,080

Total Assets	\$ 999,972
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Liabilities

Trust Service Award Liability (Note 4)	\$ 375,834
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Net Position

Cumulative Results of Operations	\$ 624,138
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Total Liabilities and Net Position	\$ 999,972
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The accompanying notes are an integral part of these statements.

**Corporation for National and Community Services
National Service Trust
Unaudited Statement of Net Cost
For the Periods Ended September 30, 2019
(in thousands)**

Gross Cost:

Operating Expense (Note 6)	\$	242,830
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Less Earned Revenue:

Intragovernmental

Interest Revenue		(17,650)
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Operating Revenue		(944)
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Total Earned Revenue		(18,594)
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Net cost of operations

	\$	<u>224,236</u>
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The accompanying notes are an integral part of these statements.

**Corporation for National and Community Services
National Service Trust
Unaudited Statement of Changes in Net Position
For the Period Ended September 30, 2019
(in thousands)**

Cumulative Results from Operations	
Cumulative Results from Operations	\$ 623,534
Budgetary Financing Sources	
Transfers in/out without reimbursement	
Expenditure transfers in/out	224,840
Net Cost of Operations	224,236
Net Change	<u>604</u>
Cumulative Results of Operations	<u>\$ 624,138</u>

The accompanying notes are an integral part of these statements.

**Corporation for National and Community Services
National Service Trust
Unaudited Statement of Budgetary Resources
For the Period Ended September 30, 2019
(in thousands)**

Budgetary Resources

Unobligated balance from prior year budget authority, net (disc and mand)	\$ 363,337
Temporary Reduction of Prior Year Unobligated Balance	(150,000)
Appropriations (discretionary and mandatory) (Note 5)	234,963
Spending authority from offsetting collections (discretionary and mandatory)	944
Total Budgetary Resources	\$ 449,244

Status of Budgetary Resources

New Obligations and upwards adjustments (total)	\$ 232,778
Unobligated Balance, end of year	
Apportioned, unexpired accounts	63,831
Unapportioned, unexpired	152,635
Unexpired unobligated balance, end of year	216,466
Total Budgetary Resources	\$ 449,244

Outlays, Net

Outlays, net	170,231
Distributed Offsetting Receipts	(224,840)
Outlays, net (total) (discretionary and mandatory)	\$ (54,609)

The accompanying notes are an integral part of these statements.

Notes to National Service Trust Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. REPORTING ENTITY

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

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.
- AmeriCorps State Service Commission Support Grants (State Commission Support) offers grants supporting shared federal-state partnership with a central role for governors in designing and implementing national service through governor-supported State Service Commissions.

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.

M. BASIS OF ACCOUNTING AND PRESENTATION

The financial statements and footnotes for FY 2019 are presented on a single year basis. CNCS uses the accrual and budgetary basis of accounting in conformity with the Generally Accepted Accounting Principles (GAAP) for the federal government. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash. Federal budgetary accounting recognizes the obligation of appropriations and other funds upon the establishment of a properly documented commitment.

N. 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, accounts payable and payroll as well as adjustments to the grant advances.

O. FUND BALANCE WITH TREASURY

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

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

P. OTHER MONETARY ASSETS

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

Q. INVESTMENTS

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

R. TRUST SERVICE AWARD LIABILITY

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

S. RESTATEMENTS

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

NOTE 2 – FUND BALANCE WITH TREASURY

The CNCS is funded with appropriations from General Funds and Trust Funds. While amounts appropriated from the General Fund of the Treasury are included in the FBWT, Trust Funds investments are not. The Trust Funds investments are redeemed, as needed to meet the cash disbursement needs, at which time the funds are transferred from the Trust Fund to FBWT. The Trust Fund is for providing education award or student loan interest forbearance expense, whereas the General Fund is for operating expenses. The FBWT as of September 30, 2019 is:

		<i>Unaudited (in thousands)</i>
Fund Balances		
Trust Funds – National Service Trust	\$	<u>243,892</u>
Status of Fund Balance with Treasury		
Unobligated Balance Available		366,466
Investment		(742,230)
Obligated Balance not yet Disbursed		<u>619,656</u>
Total	\$	<u><u>243,892</u></u>

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

NOTE 3 – INVESTMENTS

By law, CNCS may invest the funds of the National Service Trust in interest-bearing Treasury securities guaranteed by the United States as to principal and interest. CNCS’s investments are valued at cost and adjusted for the amortization of premiums and discounts Investment are held to maturity. Interest income are paid by Treasury semi-annually. As of September 30, 2019, Investment composition is:

<i>Unaudited (in thousands)</i>					
U.S. Treasury Marketable Securities	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Bills	\$ 110,862	\$ 462	\$ -	\$ 111,324	\$ 111,599
Notes	640,540	3,274	942	644,756	648,037
Total	\$ <u>751,401</u>	\$ <u>3,736</u>	\$ <u>942</u>	\$ <u>756,080</u>	\$ <u>759,636</u>

NOTE 4 – TRUST SERVICE AWARD LIABILITY

Individuals who successfully complete terms of service in AmeriCorps programs earn education awards, which can be used to make payments on qualified student loans or for educational expenses at qualified educational institutions. The education award generally must be used within seven years of completion date of an approved term of national service. If the education award is transferred to an eligible individual or is a Summer of Service award (which was available to youth enrolled in grades 6 through 9), the use period is ten years. These awards, as well as interest forbearance payments on qualified student loans during the period members perform their service, are paid from the National Service Trust Fund. The Service Award Liability as of September 30, 2019 is:

	<i>Unaudited (in thousands)</i>
Cumulative Education Awards Earned	\$ 3,906,180
Cumulative Interest Forbearance Earned	126,057
Total Cumulative Awards Earned	<u>4,032,237</u>
Less: Discount for Usage and Statistics	<u>(724,124)</u>
Total Estimated Service Award Liability	3,308,113
Less: Cumulative Awards Paid	<u>(2,998,015)</u>
Total Liability for Awards Earned	310,098
Total Liability for Awards not yet Earned	<u>65,736</u>
Total	\$ <u>375,834</u>

NOTE 5 – APPROPRIATIONS RECEIVED BY THE NATIONAL SERVICE TRUST

As of September 30, 2019, the National Service Trust received \$206.8 million (unaudited). Under the provisions included in its annual appropriations and under 42 U.S.C. 12601a, CNCS is also authorized to transfer additional amounts from subtitle C program funds to the National Service Trust to support the activities of national service participants.

NOTE 6 – 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, 2019, respectively, has been adjusted to reflect the fact that earned awards are not always used.

	<i>Unaudited (in thousands)</i>
Estimated Education Awards	\$ 231,098
Estimated Interest Forbearance	11,733
National Service Award Expense	\$ 242,830

NOTE 7 – 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 more than \$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 8 – SUBSEQUENT EVENTS

CNCS has evaluated subsequent events through November 7, 2019, which is the date these financial statements were available to be issued. Because of its evaluation, CNCS has determined that no subsequent events need to be recognized or disclosed.

OTHER INFORMATION

Summary of Financial Statement Audit and Management Assurances

Table 1. Summary of Financial Statement Audit					
Audit Opinion	Disclaimer				
Restatement	Yes				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Reporting	1				1
Trust Fund Unpaid Obligations and Liability	1				1
Trust Fund Liability	1			1	
Grants Accrual Payable and Advances	1				1
Undelivered Orders and Accounts Payable	1				1
Property, Plant & Equipment	1				1
Undelivered Orders – Grant	1				1
Prior Year Recoveries	1				1
Other Liabilities	1				1
Internal Control Program	1				1
<i>Total Material Weaknesses</i>	10			1	9

Table 2. Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified, Modified, or No Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
[Name of weakness]						
[Name of weakness]						
[Name of weakness]						
<i>Total Material Weaknesses</i>						
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified. Modified, or No Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
[Name of weakness]						
[Name of weakness]						
<i>Total Material Weaknesses</i>						

OTHER INFORMATION

Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems conform, except for instances of non-conformance, or do not conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
[Name of non-conformance]						
[Name of non-conformance]						
[Name of non-conformance]						
<i>Total non-conformances</i>						
Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
1. Federal Financial Management System Requirements	No lack of compliance noted, or Lack of compliance noted			No lack of compliance noted, or Lack of compliance noted		
2. Applicable Federal Accounting Standards	No lack of compliance noted, or Lack of compliance noted			No lack of compliance noted, or Lack of compliance noted		
3. USSGL at Transaction Level	No lack of compliance noted, or Lack of compliance noted			No lack of compliance noted, or Lack of compliance noted		

Payment Integrity

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 the agency to report information on payment accuracy to the President and Congress through annual financial reports. More detailed information on CNCS’s and government-wide improper payments for FY 2019 and prior years can be found at <https://paymentaccuracy.gov/>

CNCS currently has identified four programs as susceptible to significant improper payments: AmeriCorps State and National (AmeriCorps), the Foster Grandparent Program (FGP), RSVP, and the Senior Companion Program (SCP).

I. Payment Reporting

Historical Improper Payment Rates and Amounts

	AmeriCorps		FGP		RSVP		SCP	
	Amount (\$M)	Rate (%)	Amount (\$M)	Rate (%)	Amount (\$M)	Rate (%)	Amount (\$M)	Rate (%)
FY 2017 ¹¹	\$26.78	10.8%	\$14.07	17.1%	\$3.02	7.4%	\$5.68	16.8%
FY 2018	\$40.10	16.39%	\$18.17	20.83%	\$6.98	17.29%	10.74	28.20%
FY 2019	\$39.03	16.52%	\$25.74	27.81%	\$16.20	37.26% ¹²	\$10.96	28.29%

¹¹ These dollar figures and rates represent what was published in CNCS’s FY 2017 Annual Management Report. These numbers were calculated using a combined extrapolation method and the FY 2017 OIG audit indicated a stratified extrapolation was more appropriate. These numbers were later updated in an addendum to the FY 2018 Annual Management Report.

¹² CNCS observed a large increase in the improper payment rate in RSVP in FY 2019. CNCS employs a random sampling methodology to select individual transactions. As a result of an increased sample size and the randomness of selected transactions, 164 staff files were tested in FY 2019 as compared to 56 in FY 2018. Staff files have the highest rate of non-compliance with National Service Criminal History Checks resulting in a higher improper payment rate.

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FY 2019 Improper and Proper Payment Rates

	AmeriCorps		FGP		RSVP		SCP	
	Amount (\$M)	Rate (%)						
Program Outlays	\$236.21		\$92.54		\$43.47		\$38.73	
IP Estimates	\$39.03	16.52%	\$25.74	27.81%	\$16.20	37.26%	\$10.96	28.29%
Unknown Improper Payments ¹³	\$31.49	80.68%	\$23.61	91.18%	\$12.69	78.33%	\$9.68	88.32%
Proper Payments	\$197.18	83.48%	\$66.80	72.19%	\$27.27	62.74%	\$27.77	71.71%

FY 2019 Improper Payment Information

	AmeriCorps		FGP		RSVP		SCP	
	Amount (\$M)	Rate (%)						
IP Estimates	\$39.03	16.52%	\$25.74	27.81%	\$16.20	37.26%	\$10.96	28.29%
Monetary Loss	\$5.25	13.45%	\$2.11	8.20%	\$2.24	13.83%	\$1.175	10.71%
Monetary Loss (Within Agency Control)	\$0		\$0		\$0		\$0	
Monetary Loss (Outside Agency Control) ¹⁴	\$5.25	13.45%	\$2.11	8.20%	\$2.24	13.83%	\$1.175	10.71%
Non-Monetary Loss	\$2.29	5.87%	\$0.02	.08%	\$1.27	7.84%	\$1.06	0.97%
Unknown	\$31.49	80.68%	\$23.61	91.72%	\$12.69	78.33%	\$9.68	88.32%

¹³ The rates and amounts in this row correspond to the estimated total improper payments that represent payments that could be either proper or improper, but the CNCS is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation. Prior to FY19, OMB guidance did not require agencies to report unknown improper payments.

¹⁴ The rates and amounts in this row correspond to the total estimated improper payments that represent monetary losses due to factors beyond CNCS's control.

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FY 2019 Overpayment and Underpayment Information

	AmeriCorps		FGP		RSVP		SCP	
	Amount (\$M)	Rate (%)						
IP Estimates	\$39.03	16.52%	\$25.74	27.81%	\$16.20	37.26%	\$10.96	28.29%
Overpayments	\$7.12	18.24%	\$2.11	8.20%	\$2.24	13.83%	\$1.175	10.71%
Underpayments	\$0.42	1.09%	\$0.02	0.08%	\$1.27	7.84%	\$0.106	0.97%
Unknown	\$31.49	80.67%	\$23.61	91.72%	\$12.69	78.33%	\$9.68	88.32%

FY 2019 Source of Improper Payments

All improper payments in all programs are made by other parties. None are made directly by CNCS.

Improper Payment Root Cause

CNCS's improper payments fall into three categories:

1. Program Design or Structural Issues: payments that were made to national service participants and staff where National Service Criminal History Check (NSCHC) component(s) were initiated prior to start of service, in accordance with the regulatory requirements, but the date of the payment occurred before NSCHC results had been received.
2. Administrative or Process Errors Made by Other Party: occurs when CNCS finds errors in grantee payment calculations, when unallowable charges are coded to the grant, and when errors were found and corrected.
3. Insufficient Documentation to Determine: payments that have insufficient supporting documentation such as missing or inadequate administrative documents, timesheets, eligibility forms, etc. to verify the accuracy of the payment. This category also contains payments where grantees did not perform all the required components of the NSCHC on national service participants and staff prior to the date of the tested payment or there are missing or inadequate NSCHC components. Overall, 85% of CNCS's improper payments fall into this category.

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Program Name	Payment Type	Program Design or Structural Issues (\$M)	Administrative or Process Errors Made by Other Party (\$M)	Insufficient Documentation to Determine (\$M)	TOTAL (\$M)
AmeriCorps	Overpayments	\$1.87	\$5.25		\$7.12
AmeriCorps	Underpayment	0.00	\$0.42		\$0.42
AmeriCorps	Unknown			\$31.49	\$31.49
FGP	Overpayments	\$0.00	\$2.11		\$2.11
FGP	Underpayments	\$0.00	\$0.02		\$0.02
FGP	Unknown			\$23.61	\$23.61
RSVP	Overpayments	\$0	\$2.24		\$2.24
RSVP	Underpayments	\$0	\$1.27		\$1.27
RSVP	Unknown			\$12.69	\$12.69
SCP	Overpayments	\$0	\$1.18		\$1.175
SCP	Underpayments	\$0	\$0.106		\$.106
SCP	Unknown			\$9.68	\$9.68

Improper Payment Corrective Actions by Root Cause

Program Design or Structural Issues

The payments included in this category represent files for which the NSCHC components were initiated prior to start of service, but results were pending at the time of payment. Since results were not received at time of payment, CNCS cannot definitively establish eligibility and the payments are considered improper. While the sex offender registration check must be completed before work or service begins, the regulation allows individuals in covered positions to begin work or service while other NSCHC component results are pending, if they are accompanied by a cleared individual during this time period.

Actions Taken in FY 2019

CNCS approved a vendor to provide NSOPW and state checks to grant recipients in FY 2019. CNCS continues to contract with a vendor for grant recipients to conduct fingerprint-based FBI checks. Checks performed through the vendors generally return results within 5-10 business days. Reducing the turnaround time for results may help reduce the number of improper payments that are classified as such because results have not been returned by the time of testing.

Planned Corrective Actions

CNCS will monitor the impact of vendor availability in the FY 2020 testing and assess whether additional actions should be taken.

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Administrative Errors Made by Other Party

This error includes payments that CNCS grantees made that were unallowable, improperly coded to the grant, outside the period of performance, or errors that led to an overpayment or underpayment. These errors are difficult to address as they are administrative errors made by CNCS funded grantees and are not under the control of CNCS. CNCS's corrective actions will focus on ensuring grantees are aware these issues are occurring, have access to the information needed to correct these issues, and understand the importance of strong internal controls and quality assurance checks.

Actions Taken in FY 2019

- CNCS highlighted common types of administrative errors in its four FY 2019 improper payments trainings and Frequently Asked Questions documents which are available to grant recipients selected for improper payments testing.
- CNCS launched an optional eCourse on the improper payments process for the Senior Corps programs, which have more frequent occurrences of these types of issues. This course covers the improper payments law and guidance, how to successfully complete the assessment, and covers commonly found improper payments. While the developed trainings have been optional, CNCS will require grant recipients selected for Improper Payments testing to access live or recorded training in FY20.
- The Office of the Chief Risk Officer, CNCS's office that manages the improper payments testing process, shared detailed findings with applicable program and grants offices to ensure these topics are covered in regular training and technical assistance.

Planned Corrective Actions

- CNCS will continue to share detailed findings with applicable program officers, grants officers, and portfolio managers to ensure these topics are covered in regular training and technical assistance. The effects of this training will be seen in FY 2020.
- CNCS plans to create an improper payments webpage on nationalservice.gov to provide all CNCS grantees an easy place to access necessary laws, regulations, policies, and trainings that affect improper payments testing. This will be completed in early FY 2020 and since CNCS's improper payments process tests data in the past, it will not see the effects of the corrective action until FY 2021 testing.

Insufficient Documentation to Determine

National Service Criminal History Checks with Insufficient Documentation to Determine:

Over 67% of the improper payments in the insufficient documentation category have a non-compliant National Service Criminal History Checks (NSCHC) component. By law, NSCHCs are required for all national service participants and staff in covered positions. An individual in a covered position is required to have a National Sex Offender Public Website (NSOPW) check in addition to a state check, and/or an FBI fingerprint-based check, depending on the individual's access to vulnerable populations. If any part of the required check is not completed, or is completed incorrectly, by the time the payment is made, it is considered

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improper. Over 99% of files tested have attempted some portion of the required criminal history check.

CNCS has reduced the barriers to NSCHC compliance with the implementation of its vendor solutions. Participation in the Exemption Period was optional, but CNCS continues to encourage usage of the NSCHC vendors, specifically via its new National Service Criminal History Check Guide to Enforcement Action, which requires use of the vendors for rechecks and criminal history checks moving forward if NSCHC noncompliance is found.

In the past, CNCS focused on training and technical assistance to combat the non-compliance identified in grantee NSCHC files. In FY 2019, CNCS approved a vendor that grant recipients may use to obtain NSOPW and State checks. The vendor is expected to help reduce barriers to obtaining a compliant NSCHC for grant recipients. CNCS has a previously-established contract with an FBI Channeler. Together, the two vendors can provide grantees with access to all required components of a compliant check. CNCS's corrective actions will focus on encouraging grantees to use the vendors and providing technical assistance and training for completing a compliant NSCHC through use of the vendors.

Actions Taken in FY 2019

- CNCS approved a contract for the services of a private-sector vendor to combat NSCHC non-compliance. The approved vendor, in conjunction with the FBI channeler with whom CNCS had already contracted, provides grantees with access to all three portions of a compliant check with short turnaround times. Use of the vendors is an allowable cost to the grant. Because data is tested in the past, CNCS will not realize the impact of the availability of vendors on its improper payment rates until FY 2020.
- CNCS extrapolated the results of its FY 2019 improper payments sample a second time to determine what the improper payment rates would be after the exemption period and the data shows a potential positive impact. Those rates can be seen in the addendum to improper payments reporting.
- CNCS established an exemption period from November 15, 2018 through June 30, 2019 to allow grantees to conduct NSCHC re-checks through the vendors to ensure compliance. Supplemental funding was made available to grantees to encourage them to participate. As of September 25, 2019, 1,942 accounts were established with the new vendor resulting in 93,993 checks. While the trainings to support the NSCHC Exemption Period and use the vendors was optional, CNCS continues to require an annual NSCHC eCourse and to develop and refine its suite of NSCHC trainings with the goal of targeting training and technical assistance to specific compliance issues.
- CNCS provided nearly 1,000 participants with 30 opportunities (totaling 37.5 hours) of optional office hours and training sessions on how to correctly access and use the vendors.
- CNCS revised its NSCHC policies and procedures to both streamline the process and encourage use of the vendors. The effect of these policy changes will be seen in FY 2020 improper payments assessment.
- CNCS continued to train grantees on the requirements of the NSCHC requirements

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by providing seven (7) NSCHC trainings. CNCS continues to stress its importance at all available opportunities.

- CNCS continued to require at least one active staff person from each grantee to complete an annual training course related to NSCHC compliance.

Planned Corrective Actions

- CNCS will continue to enforce noncompliance using its new NSCHC Guide to Enforcement Action, effective July 1, 2019, which requires grantees to use CNCS's approved vendors if NSCHC non-compliance is found. For any future non-compliant NSCHCs that are discovered, disallowance will be calculated on a cost basis and grantees who are not using the vendors will be required to redo the checks in the vendor systems and to use the vendors for future NSCHCs for the remainder of the grant's period of performance. The effects of this new policy will be seen in FY 2020.
- CNCS will continue to provide training and technical assistance for completing compliant NSCHC through vendors. Any effects of this training will be seen in FY 2020.
- CNCS will continue to train grantees on the requirements of the NSCHC requirements and stress its importance at all available opportunities. The effects of this training will be seen in FY 2020.
- CNCS will continue to require at least one staff person from each grantee to complete a course related to NSCHC compliance. The effects of this training will be seen in FY 2020. This required training was a corrective action put in place in 2017 and CNCS continues to employ it as a tool to ensure grantees are aware of the requirements.

Other Issues with Insignificant Documentation to Determine

CNCS continues to see non-criminal history check related findings during its improper payments testing. These types of findings typically stem from missing or inadequate administrative documents, timesheets, eligibility forms, etc. to verify the accuracy of the payment.

Actions Taken in FY 2019

- CNCS updated its improper training resources to further stress the required documents needed to successfully complete an improper payment review. These trainings were given internally to staff and externally to grantees through webinars.
- CNCS added an additional staff resource and contractor support for the improper payments process, which allowed for more follow-up with grantees to ensure testing files were complete prior to the issuance of testing determinations.
- With the additional staffing resources, CNCS began its improper payments testing in January, six months earlier than in the past. As a result, the process was completed earlier and there was more time for follow-up and conduct quality control checks to ensure the completeness and accuracy of all testing documents and files.
- CNCS updated its communications to grantees to make them clearer and more

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prescriptive about documentation requirements for a successful assessment.

Planned Corrective Actions

- CNCS will continue to review its communications to grantees to make sure they are clear and prescriptive about what documentation is required to complete a successful assessment. The effects of this will be seen in FY 2020.
- CNCS will continue to offer an annual training to grantees selected for improper payments testing. Any effect from this corrective action may be seen in FY 2020 improper payments testing. While the developed trainings have been optional in the past, CNCS will require grant recipients selected for improper payments testing to access live or recorded training in FY20.
- At the conclusion of the annual improper payments' assessment, CNCS will share detailed information relating to these errors with the program, grants, and regional offices for potential targeted training and technical assistance for grantees with non-compliance.

Improper Payment Reduction Targets

Program Name	FY 2019 Outlays (\$M)	FY 2019 IP Amount (\$M)	FY 2019 IP Rate	FY 2020 Est. Outlays	FY 2020 Est. IP Rate	FY2020 Est. IP \$M
AmeriCorps	\$236.21	\$39.03	16.5%	\$236.21	13.22%	\$31.22
FGP	\$92.54	\$25.74	27.8%	\$92.54	22.25%	\$20.59
RSVP	\$43.47	\$16.20	37.3%	\$43.47	29.81%	\$12.96
SCP	\$38.73	\$10.96	28.3%	\$38.73	22.63%	\$8.77

CNCS's reduction targets were set at an overall rate reduction of 20% per program, meaning the monetary amount of improper payments is targeted to reduce by 20% in FY20. This 20% reduction represents a \$18.43M reduction in improper payments. CNCS has implemented a new resource to address the largest driver of improper payments, NSCHC non-compliance, and believes this new resource will affect FY 2020 improper payment rates. See the Addendum to Improper Payments Reporting for more information.

Addendum to Improper Payments Reporting

The FY 2019 improper payments assessment did not have the benefit of the vendor availability for the entire testing period given timing of its rollout, and data from same year indicates the NSCHC vendor could reduce improper payments across programs by approximately 40-50 percent per program. In FY 2018, CNCS contracted with a new vendor to provide NSCHC for grantees, thus providing an additional resource grantees can use to address this non-compliance. In FY 2019, CNCS allowed its grantees to participate in an Exemption Period, during which they could utilize additional grant funds to rerun NSCHCs through the approved vendors and not experience financial consequence for prior noncompliance if all checks were

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correctly rerun and documented. CNCS performed a second improper payment rate extrapolation on its FY 2019 files to determine the impact of the vendor.

The Vendor Extrapolation rates were extrapolated using the same methodology as described below for the improper payment extrapolation. For the purposes of this extrapolation, if a file was made complete during the exemption period and eligibility could be verified, it was no longer considered improper. If the NSCHC issue was cured, but had other components that made the payment improper, it was still extrapolated as improper. Please see the comparison below.

	AmeriCorps		FGP		RSVP		SCP	
	Amount (\$M)	Rate (%)						
FY 19 IP Estimates	\$39.03	16.5%	\$25.74	27.8%	\$16.20	37.3%	\$38.73	28.3%
FY 19 IP w. Vendors	\$18.54	7.8%	\$15.32	16.6%	\$9.84	22.6%	\$5.17	13.3%

II. Recapture of Improper Payments Reporting

CNCS's prior analysis determined payment recapture audits are not cost effective in any program or activity that expends over \$1M annually. No changes within assessed CNCS programs would warrant a new analysis.

CNCS does and will continue to establish debts for any overpayments, if recoverable, discovered within its grant programs and other operations. CNCS will continue the current processes to prevent improper payments including grantee pre-award checks for both organizational and individual eligibility to receive and work with federal funds. No new, additional procedures are currently planned for FY 2020.

III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

Improper payments guidance requires agencies to report improper payment reductions attributable to the Do Not Pay Initiative. The Do Not Pay initiative is a no-cost tool available to federal agencies to help detect and prevent improper payments. In FY 2019, CNCS did not experience a reduction in improper payments due to the Do Not Pay Initiative.

IV. Barriers

CNCS previously reported access to the statutorily and regulatorily required repositories for NSCHC as a barrier to improper payment compliance. In FY 2019, CNCS approved a vendor to address this issue and now all checks are available through CNCS-approved vendors. The effect of this vendor will be seen in FY 2020's improper payment rates. With the availability of the vendor and the ability for grant recipients to claim the cost of the vendor as an allowable cost, we believe no other barriers to compliance exist at this time.

V. Accountability

CNCS named the Chief Risk Officer the accountable official for compliance with IPERIA. The Directors of Senior Corps and AmeriCorps State and National have been named the accountable officials for the rates in their respective programs. In FY 2019, all accountable officials and the agency's Chief Executive Officer encouraged the use of the vendor to reduce barriers to NSCHC compliance, which is CNCS's most significant driver for its improper payments. The effects of this effort are expected to be seen in FY 2020 improper payment assessment.

CNCS is currently undergoing a reorganization, which includes realigning positions and moving into a regional structure. As this is occurring, CNCS will consider how the improper payment rate, its reduction, and recapture of improper payments can be incorporated into performance appraisal criteria.

VI. Agency Information Systems and Other Infrastructure

CNCS has not requested additional funding for internal controls, human capital, or information systems to reduce its improper payment to the level the agency has targeted. The agency has focused its efforts for improper payment reduction on reducing a primary barrier to compliance. CNCS anticipates a rate reduction in FY 2020 when the full effect of the vendor on NSCHC compliance will be observed.

VII. Sampling and Estimation

CNCS's four susceptible grant programs use the same multi-stage sampling methodology. CNCS's grantees report 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 filing Federal Financial Reports (FFRs). The sample was selected using a probability proportional to size (PPS) with replacement sampling¹⁵ methodology on these filed FFRs. CNCS selected FFRs with end dates that span two fiscal years – the third and fourth quarter of the prior fiscal year and the first and second quarters from the current fiscal year.

CNCS requested general ledger entries or other accounting system records that supported the FFR totals. CNCS then selected general ledger entries using a simple random sampling method. If the randomly selected entry was a payment to an individual or a vendor that represented a single payment, then no further sampling was required, and that payment was evaluated. If the entry was an intermediary payment and not an individual payment, then CNCS requested the supporting data for that entry and performed additional sample random sampling on the supporting data until an individual, assessable payment was selected. At least two items were selected at each stage of sampling.

The table below represents the sample size for CNCS's FY 2019 improper payments assessment.

¹⁵ In theory, the PPS with replacement sampling method is similar to the monetary unit sampling, which is frequently used by auditors to test financial accounts. With PPS with replacement, the probabilities of selection remain proportional to sizes at each selection and the formulas for the estimated variances of the estimates are straight forward (refer to Cochran's *Sampling Techniques*, 3rd Edition, Chapter 9A, for details). In practice, these two approaches usually lead to results with minimal difference.

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Program	N (Universe)	Total FFR Amount	Sample Size
AmeriCorps	334	\$244,669,303.42	67
FGP	606	\$87,247,230.67	94
RSVP	1,062	\$40,362,415.81	82
SCP	345	\$38,087,942.74	112
Total	2,347	\$410,366,892.64	355

When CNCS determined that the sampled transaction was improper based on assessment of the supporting documents provided by the grantee, CNCS considered the error an Improper Payment. Statisticians extrapolated Improper Payments to the 1st stage using ratio estimators and then to the FFR population using a PPS estimator. CNCS used two separate data pulls to complete its testing, therefore a stratified approach was used for the extrapolation.

VIII. Risk Assessment

Risk assessments were last performed in FY 2018 and, unless substantial changes occur in any program or activity prior, they will occur again in FY 2022. No substantial changes in legislation, program operations, or funding occurred at the agency, program, or activity level in FY2019.

Fraud Reduction Report

Fraud Reduction Report

On June 30, 2016 the president of the United States 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.

A- Agency-wide Mandatory Fraud Awareness Training

The Agency Designated Ethics Official conducts an annual ethics training that includes fraud awareness. The training is based on a curriculum jointly developed with the OIG Investigations Unit. 100% of CNCS employees at headquarter and in regional offices takes a mandatory one-hour Ethics and Fraud Awareness training each year. As a result, CNCS has increasingly become a fraud aware organization, where employees are trained on how to recognize and report fraud.

B- Implementation of the GAO's Framework for Managing Fraud Risks In Federal Programs

In FY2017 CNCS implemented of the *GAO's Framework for Managing Fraud Risk in the Federal Government*.

Fraud Risk Management Governance Body

In order to demonstrate its commitment to combating fraud, the Corporation created a fraud risk subcommittee of its risk assessment committee, composed of senior-level managers from offices whose programs were deemed susceptible to fraud. The members of this fraud risk governance body include the Chief Financial Officer (CFO); Director of Procurement Services; Chief Human Capital Officer (CHCO); Chief Information Officer (CIO); Deputy General Counsel; Chief Grants Officer (CGO); Chief Program Officer (CPO); and the Chief Risk Officer. The members of this body were selected across functional areas. The cross-functional nature of the team fosters the breakdown of silos in fraud risks assessment and helps identify fraud risk interactions across functions. The roles of this body include identifying and analyzing fraud risk and providing effective oversight to the internal controls over fraud risks. In FY 2019, OCRO trained the members of the fraud risks governance body on the *Program Integrity: the Antifraud Playbook* developed by the Chief Financial Officers Council (CFOC) and the U.S. Department of the Treasury, Bureau of the Fiscal Service to help advance the goal of safeguarding public resources.

Update of the Corporation's Fraud Risk Profile

Under the oversight of the fraud risk subcommittee, OCRO has created the CNCS fraud risk profile. The members of the subcommittee identified thirty-five (35) inherent fraud risks that were assessed on a two-dimensional criterion: likelihood and impact. Those risks were both mission and mission-support related. CNCS's internal control program (ICP) identified the counter measures (existing fraud prevention and detection controls) that were designed and

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implemented to address those risks. In FY 2019, as part of its risk-based rotational control testing, the ICP assessed the operating effectiveness of 62% of the identified fraud risk controls and found them to be effective. In FY 2018, the ICP had tested 38% of those controls. The ICP is currently in the process of providing recommendations to strengthen those controls. In FY 2020 the ICP will reperform the Fraud Risk Assessment to determine whether new fraud risks have developed as a result of changes in the CNCS organization structure and key business processes.

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	2019	The current range of civil monetary penalties related to Restrictions on Lobbying is from \$20,134 to \$201,340.	Corporation for National and Community Service	82 Fed. Reg. 1606 (Jan. 5, 2018)
Pub. L. 99-509, Secs. 6101-6104, 100 Stat. 1874 (31 U.S.C. 3801-3812); 42 U.S.C. 12651c12651d	The penalty associated with the Program Fraud Civil Remedies Act (45 CFR 2554.1)	2006	2019	The upper limit for civil monetary penalties for the Program Fraud Civil Remedies Act of 1986 is \$11,463.	Corporation for National and Community Service	82 Fed. Reg. 1606 (Jan. 5, 2018)

National Service Trust Fund Status Report (September 19, 2019)

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 2019, 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 \$6,095. Completion of a part-time term, requiring a minimum of 900 hours of service, entitles an AmeriCorps member to an education award of \$3,047. Reduced part-time terms, which provide awards of \$343 to \$2,321, 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 2019					
Program	Awarded		Certified Not	Planned Not	Total
	Enrolled	Not Enrolled	Awarded	Certified	
<i>STATE/NATL</i>	28,223	35,567	546	-	64,336
<i>VISTA</i>	6,148	-	103	0	6,251
<i>NCCC</i>	988	-	212	-	1,200
Total	35,359	35,567	861	0	71,787

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The 71,787 Trust positions planned for Program Year 2019 do not include an estimated 1,300 AmeriCorps VISTA members (1100 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 2019, including VISTA members electing a stipend, is 73,087. 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.

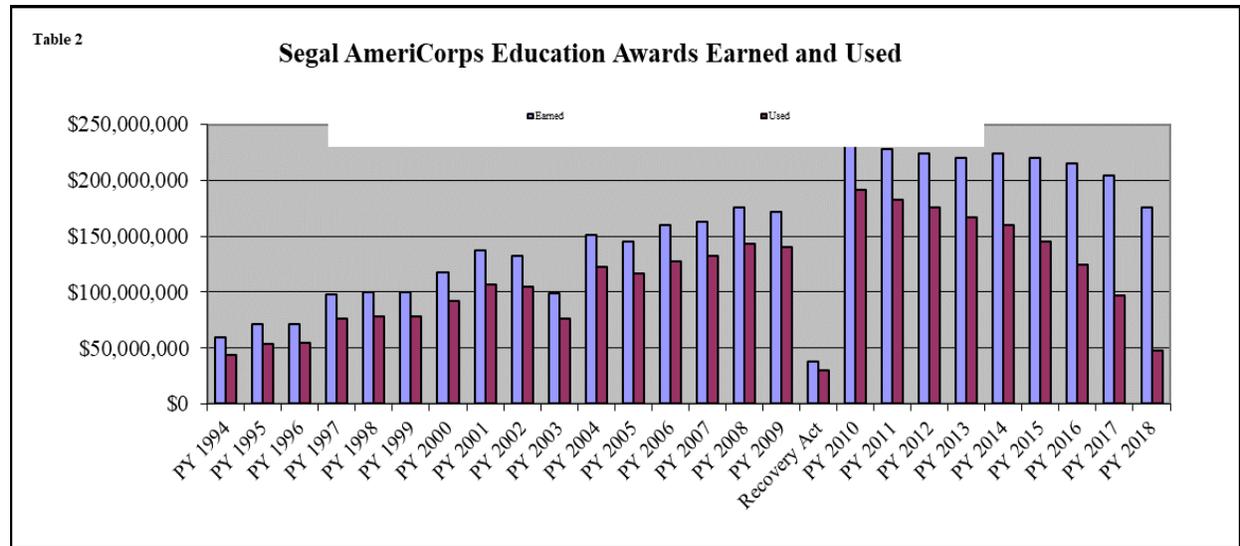
Table 1b					
AmeriCorps Member Position Award Activity					
Program Year 2018					
Program	Awarded		Certified	Planned	Total
	Enrolled	Not Enrolled	Not Awarded	Not Certified	
<i>STATE/NATL</i>	57,034	9,615	-	-	66,649
<i>VISTA</i>	6,118	0	402	(442)	6,078
<i>NCCC</i>	1,094	0	106	-	1,200
Total	64,246	9,615	508	(442)	73,927

The 73,927 Trust positions for Program Year 2018 do not include an estimated 1,500 AmeriCorps VISTA members (1,300 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 2018, including VISTA members electing a stipend, is 75,427. Of the 6,078 VISTA member positions in the Trust for 2018, 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 \$3.94 billion in Segal AmeriCorps Education Awards and used over \$2.87 billion of that amount to fund their education and repay student loans. In addition, CNCS has made \$126.25 million in interest forbearance payments. Approximately \$494.06 million in education awards earned have expired without being used. The Trust obligation formula has been adjusted to reflect these expired awards.

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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 Program Years							
	2014	2015	2016	2017	2018	2019	Fail-safe Trigger
Number of Refilled Positions	1,131	1,158	1,026	1,026	0	0	N/A
Refills as a Percent of Awarded State & National Positions	1.81%	1.87%	1.57%	1.57%	1.57%	0.00%	5%
State & National Enrollment as a Percentage of Awarded Positions	99.3%	98.1%	92.1%	90.2%	85.6%	85.6%	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 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 2018 but not fill all positions until fiscal 2019. All positions related to this grant would be considered Program Year 2018

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positions, irrespective of the fiscal year in which they are filled. The Reduced Part-time category below includes Reduced Halftime, Quarter time, Minimum time, and AmeriCorps Affiliates.

Table 4					
Factors Affecting the National Service Trust Fund					
Program Year					
	2015	2016	2017	2018	2019
Member enrollments in the Trust	68,947	70,168	68,084	65,460	35,721
Percent of members who earned an education award	83.10%	82.64%	0.00%	80.46%	65.20%
Percent of earned education awards used	65.81%	58.20%	0.00%	27.23%	20.43%
Breakout of enrollment by term type:					
Full-time	54%	51%	50%	49%	70%
Part-time	13%	14%	14%	13%	0%
Reduced Part-time	33%	35%	35%	39%	30%

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 2018:

Enrolled: 64,246
 Still Earning: 9,615
 Completed: 54,631 (Enrolled less Still Earning)
 Awards Earned: 45,222
 % Earned: 82.78% (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 estimated enrollment, earning and usage factors and the time value of money. For FY 2019, these factors are the full value of the Segal AmeriCorps Education Award, a 100 percent enrollment rate (which allows for refills), an Authorized to Used rate of 69.31%, an Earning to Used rate of 69.09%, and an Earned to Used rate of 81.99%. Under the National and Community Service Act, as amended, awards earned by members over age 55 can be transferred

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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 19, 2019 (000s)					
	Recovery Act	Other	FEMA Corps	General Fund	Consolidated
Funds Available at October 1	1,882	3	605	-	2,490
Reserve Funds	3,500			46,697	50,197
Total Starting Funds	5,382	3	605	46,697	52,687
Budgetary Resources					
Fiscal Year Appropriation	25	-	-	224,840	224,865
Less Unapportioned	-	-	-	(237,296)	(237,296)
Deobligation Prior Year Positions (net)	-	-	-	-	-
Collection of Audit Receivables	-	-	-	62	62
Less: Additions to Trust Reserve	-	-	-	-	-
Total Budgetary Resources	5,407	3	605	34,303	40,318
Obligations					
Education Awards	(24)	-	-	(231,343)	(231,367)
Interest Forbearance	(1)	-	-	169,293	169,292
Total Obligations	(25)	-	-	(62,050)	(62,075)
Commitments					
Education Awards	-	-	-	(1,251)	(1,251)
Interest Forbearance	-	-	-	-	-
Total Commitments	-	-	-	(1,251)	(1,251)
Less Funds in Reserve	(3,500)	-	-	(46,697)	(50,197)
Funds Available for Obligation	1,882	3	605	(75,695)	(73,205)

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Table 6						
Corporation for National and Community Service National Service Trust Schedule of Trust Obligations as of September 19, 2019 (000s)						
Resources	Recovery Act	Trust Other	Trust FEMA Corps	General Fund	Consolidated	
Fund Balance with Treasury	8,595	56	4,787	230,454	243,892	
Investments, Net	0	-	5,892	749,246	755,137	
Interest Receivable	1	-	0	942	942	
Accounts Receivable	-	-	-	-	-	
Subtotal	8,596	56	10,679	980,641	999,972	
Less:						
Cumulative Trust Reserve	(3,500)	-	-	(46,697)	(50,197)	
Receivables Not Available for Obligation	(1)	-	(31)	(4,647)	(4,678)	
Unapportioned	-	-	-	(237,296)	(237,296)	
Total Resources	5,095	56	10,648	692,001	707,800	
Unliquidated Obligations						
Education Awards	(3,102)	(50)	(9,148)	(780,687)	(792,987)	
Interest Forbearance	(103)	(2)	5	169,293	169,193	
Total Unliquidated Obligations	(3,205)	(52)	(9,143)	(611,394)	(623,794)	
Commitments						
Education Awards	-	-	-	(1,251)	(1,251)	
Interest Forbearance	-	-	-	-	-	
Total Commitments	-	-	-	(1,251)	(1,251)	
Funds Available for Obligation	1,890	3	1,505	79,357	82,755	

Enrollment Activity

Table 7 presents cumulative data to date on Trust enrollments, education awards earned and used for Program Years 1994 through 2019 as well as Recovery Act positions.

Table 7							
Trust Enrollment Activity – Program Years 1994 through September 19, 2019							
Program Year	Type	Members Enrolled	Members Earning or Not Exited	Earned an Award	Did Not Earn	Amount Earned	Amount Used
1994 through 2009	Full Time	405,978	3	324,848	81,127	1,498,770,098	1,213,229,011
	Part-time	167,203	1	111,958	55,244	255,668,441	183,324,186
	Reduced Part-time	228,144	3	179,938	48,203	199,167,584	152,306,591
Total		801,325	7	616,744	184,574	1,953,606,122	1,548,859,788

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Program Year	Type	Members Enrolled	Members Earning or Not Exited	Earn an Award	Did Not Earn	Amount Earned	Amount Used
2010	Full Time	37,721	5	33,286	4,430	175,564,059	147,321,483
2010	Part-time	11,430	4	8,784	2,642	22,961,157	16,313,350
2010	Reduced Part-time	39,211	4	31,759	7,448	38,779,558	28,222,636
Total		88,362	13	73,829	14,520	237,304,774	191,857,468
2011	Full Time	35,764	2	31,465	4,297	170,191,819	141,552,706
2011	Part-time	10,351	2	8,377	1,972	22,515,239	15,467,808
2011	Reduced Part-time	33,085	1	27,116	5,968	35,393,399	25,866,897
Total		79,200	5	66,958	12,237	228,100,456	182,887,411
2012	Full Time	36,273	4	31,895	4,374	171,046,684	139,083,964
2012	Part-time	9,577	1	7,771	1,805	21,026,223	14,010,222
2012	Reduced Part-time	29,144	0	23,841	5,303	31,582,835	22,353,851
Total		74,994	5	63,507	11,482	223,655,742	175,448,037
2013	Full Time	37,043	4	32,239	4,800	173,380,017	136,266,116
2013	Part-time	8,783	0	6,889	1,894	18,664,779	11,514,003
2013	Reduced Part-time	25,315	1	20,518	4,796	27,591,639	18,738,623
Total		71,141	5	59,646	11,490	219,636,435	166,518,742
2014	Full Time	37,969	12	32,783	5,174	179,128,116	132,791,825
2014	Part-time	8,662	0	6,746	1,916	18,555,164	10,277,874
2014	Reduced Part-time	24,018	5	19,380	4,633	26,420,617	16,978,351
Total		70,649	17	58,909	11,723	224,103,897	160,048,051
2015	Full Time	37,187	22	31,596	5,569	174,752,285	119,205,441
2015	Part-time	9,173	9	7,142	2,022	19,867,847	10,181,157
2015	Reduced Part-time	22,587	1	18,533	4,053	25,654,244	15,568,819
Total		68,947	32	57,271	11,644	220,274,376	144,955,417
2016	Full Time	35,514	79	29,726	5,709	165,541,121	99,581,130
2016	Part-time	9,577	14	7,381	2,182	20,687,282	9,213,596
2016	Reduced Part-time	24,498	30	20,228	4,240	28,204,596	16,070,559
Total		69,589	123	57,335	12,131	214,432,999	124,865,285
2017	Full Time	34,107	62	28,209	5,836	157,344,033	77,270,355
2017	Part-time	9,381	29	6,798	2,554	19,134,693	6,579,277
2017	Reduced Part-time	24,147	272	19,792	4,083	27,832,173	13,528,593
Total		67,635	363	54,799	12,473	204,310,898	97,378,224
2018	Full Time	31,809	2,246	24,323	5,240	137,540,976	39,586,082
2018	Part-time	8,232	2,301	4,068	1,863	11,543,874	1,698,319
2018	Reduced Part-time	25,336	4,264	17,115	3,957	26,657,004	6,570,717
2018	Affiliate	83	14	62	7	20,656	2,832
Total		65,460	8,825	45,568	11,067	175,762,510	47,857,950

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Program Year	Type	Members Enrolled	Members Earning or Not Exited	Earned an Award	Did Not Earn	Amount Earned	Amount Used
2019	Full Time	24,875	23,371	455	1,049	2,594,126	437,298
2019	Part-time	0	0	0	0	0	0
2019	Reduced Part-time	10,846	8,798	1,861	187	2,397,430	582,296
2019	Affiliate	0	0	0	0	0	0
Total		35,721	32,169	2,316	1,236	4,991,556	1,019,594
Cumulative to Date		1,493,023	41,564	1,156,882	294,577	3,906,179,765	2,841,695,967

2019

CORORATION FOR NATIONAL AND COMMUNITY SERVICE
250 E Street SW
Washington, DC 20525