

# CORPORATION FOR NATIONAL & COMMUNITY SERVICE

## OFFICE OF INSPECTOR GENERAL

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

#### OIG Report 18-02

Prepared by:

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



This report was issued to Corporation management on November 15, 2017. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than May 15, 2018, and complete its corrective actions by November 15, 2018. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



November 15, 2017

TO: Kim Mansaray  
Acting Chief Executive Officer

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

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

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

In its audit of the fiscal year 2017 Trust financial statements, CLA found that CNCS was unable to provide adequate evidential matter to support a significant number of transactions and account balances due to inadequate processes and controls to support transactions and estimates, and incomplete records to support accounting for transactions in accordance with generally accepted accounting principles. CLA has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion (disclaimer).

In connection with the contract, we reviewed CLA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with United States generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Trust financial statements.

CLA is responsible for the attached independent auditors' report, dated November 8, 2017, and the conclusions expressed therein. However, our review disclosed no instances where CLA did not comply, in all material respects, with United States generally accepted government auditing standards.

Attachment

cc: Jeffrey Page, Chief Operating Officer  
Robert McCarty, Chief Financial Officer  
Tom Hanley, Chief Information Officer  
Lori Giblin, Chief Risk Officer  
Mia Leswing, Principal-in-charge, CliftonLarsonAllen LLP



**CliftonLarsonAllen**

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Trust Financial Statements**

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

### ***Management's Responsibility for the Trust Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the Trust financial statements based on conducting the audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 17-03). Because of the matters described in the Basis for Disclaimer of Opinion paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

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

## INDEPENDENT AUDITORS' REPORT

### ***Disclaimer of Opinion***

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

### ***Other Matters***

#### *Fiscal Year 2016 Trust Financial Statements*

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

#### *Required Supplementary Information*

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

#### *Other Information*

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

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

#### ***Internal Control over Financial Reporting***

In connection with our engagement to audit the CNCS consolidated financial statements, we have issued reports, dated November 8, 2017, on our consideration of CNCS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Trust financial statements, but not for the purpose of expressing an opinion on the effectiveness of CNCS's internal control. Accordingly, we do not express an opinion on the effectiveness of CNCS's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be

## INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

4. Information Technology Security Controls

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

In connection with our engagement to audit the CNCS's consolidated financial statements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin 17-03.

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

### ***Management's Responsibility for Internal Control and Compliance***

CNCS management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the *Federal Managers' Financial Integrity Act* (FMFIA) and GAO's *Standards for Internal Control in the Federal Government*, (2) providing

## INDEPENDENT AUDITORS' REPORT

a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, contracts, and grant agreements.

### ***Auditors' Responsibilities***

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

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

### ***CNCS's Response to Findings***

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

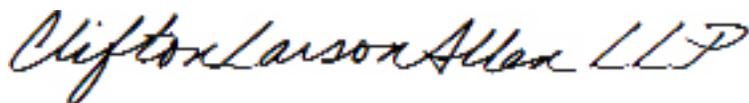
### ***Status of Prior Year's Control Deficiencies***

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

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

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

**CLIFTONLARSONALLEN LLP**



Arlington, Virginia  
November 8, 2017

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
NATIONAL SERVICE TRUST FUND**

**FISCAL YEAR 2017 (UNAUDITED) AND 2016  
FINANCIAL STATEMENTS**

**(Extracted From Fiscal Year 2017 Annual Management Report)**

# National Service Trust Financial Statements

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

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

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

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

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

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

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

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

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

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

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

## Footnotes for National Service Trust Financial Statements

## **NOTE 1—Summary of Significant Accounting Policies**

### **A. REPORTING ENTITY**

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

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

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

### **B. BASIS OF ACCOUNTING**

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

### **C. FINANCIAL STATEMENT PRESENTATION**

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

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

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

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

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

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

#### **D. BUDGETS AND BUDGETARY ACCOUNTING**

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

Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash. Federal budgetary accounting recognizes the obligation of appropriations and other funds upon the establishment of a properly documented legal liability, which, in many cases, is different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds.

#### **E. ASSET AND LIABILITY VALUATION**

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

## **F. FUND BALANCE WITH TREASURY**

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

## **G. INVESTMENTS AND RELATED RECEIVABLES**

By law, CNCS may invest the funds of the National Service Trust in interest-bearing Treasury securities guaranteed by the United States as to principal and interest. These Treasury securities are referred to as "market-based," since they mirror actual Treasury securities sold on the open market. They consist of Treasury notes, bonds, bills and one-day certificates.

Since they are expected to be held-to-maturity, CNCS's investments are valued at cost and adjusted for the amortization of premiums and discounts. The premiums and discounts are recognized as adjustments to interest income, using the effective interest method. Interest receivable represents amounts earned, but not received on investments held at year-end. Prepaid interest is the amount of interest earned on a security since the date of its last interest payment, up to the date the security is purchased by CNCS. Such interest, if any, is included in the interest receivable balance at year-end.

## **H. CASH EQUIVALENTS**

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

## **I. ACCOUNTS RECEIVABLE**

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

## **J. TRUST SERVICE AWARD LIABILITY**

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

## **K. ACCOUNTS PAYABLE**

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

## **L. NET POSITION**

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

## **M. REVENUE RECOGNITION**

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

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

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

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

## **N. INCOME TAXES**

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

## **O. USE OF ESTIMATES**

The preparation of financial statements in accordance with GAAP requires the Trust Fund to make estimates and assumptions about future events. These estimates and assumptions affect the amounts reported in the Trust Funds' financial statements and accompanying notes. CNCS evaluates its estimates and assumptions on an ongoing basis using historical experience, and other factors that it believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made when facts and circumstances warrant. As future events and their effects cannot be determined with certainty, actual results could differ from the estimates used in preparing the accompanying financial statements. See Notes 5 and 11 for more information about CNCS's use of estimates to record obligations in the Trust.

## **P. CONCENTRATION OF RISKS**

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

## NOTE 2 – Fund Balance with Treasury

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

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

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

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

**NOTE 3 – Investments and Related Receivables**

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

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

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

**NOTE 3 – Investments and Related Receivables--Continued**

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

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

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

**NOTE 4 –Accounts Receivables, Net**

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

## **NOTE 5 – Trust Service Award Liability**

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

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

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

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

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

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

## **NOTE 6 – Net Position**

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

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

## **NOTE 7 – Appropriations Received by the National Service Trust**

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

## NOTE 8 – Expenses

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

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

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

**NOTE 9 – Subsequent Events**

CNCS has evaluated subsequent events through November 8, 2017 which is the date these financial statements were available to be issued. As a consequence of its evaluation, CNCS has determined that no subsequent events need to be recognized or disclosed.

**NOTE 10—Undelivered Orders at Fiscal Year-End**

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

## **NOTE 11 – Trust Obligation Balances**

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

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

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

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

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

**APPENDIX**

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**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S  
RESPONSE TO DRAFT REPORT**

# Corporation for National and Community Service

NationalService.gov



Memorandum

Date: November 13, 2017

To: Deborah Jeffrey, Inspector General

From:   
Robert McCarty, Chief Financial Officer

Subject: Independent Auditor's Report

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

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

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

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

OFFICE OF INSPECTOR GENERAL



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