Office of Inspector General Corporation for National and Community Service

**AUDIT OF THE
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE'S
FISCAL YEAR 2015 FINANCIAL STATEMENTS**

OIG REPORT 16-01

Office of Inspector General
Corporation for
NATIONAL & COMMUNITY SERVICE

Prepared by:

Kearney & Company, P.C.
1701 Duke Street, Suite 500
Alexandria, Virginia 22314

This report was issued to Corporation management on November 13, 2015. 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 13, 2016, and complete its corrective actions by November 14, 2016. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for NATIONAL & COMMUNITY SERVICE

November 13, 2015

TO: Wendy Spencer
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 2015 Financial Statements, OIG Report 16-01

We contracted with the independent certified public accounting firm of Kearney & Company, P.C. (Kearney) to audit the consolidated financial statements of the Corporation for National and Community Service (Corporation) as of September 30, 2015 and 2014, and for the years 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, Kearney found:

- The financial statements present fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- Two significant deficiencies (Integrity Assurance Program and Information Technology) in the Corporation's internal control over financial reporting; and
- One instance of noncompliance (Federal Information Security Modernization Act of 2014) with applicable provisions of laws, regulations, contracts, and grant agreements.

In connection with the contract, we reviewed Kearney's reports 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 Corporation's financial statements or conclusions about the effectiveness of internal control; or conclusions on compliance with applicable provisions of laws, regulations, contracts, and grant agreements.

Kearney is responsible for the attached independent auditor's reports, dated November 13, 2015, and the conclusions expressed therein. However, our review disclosed no instances where Kearney did not comply, in all material respects, with United States generally accepted government auditing standards.

Attachment

cc: Asim Mishra, Chief of Staff
Jeremy Joseph, General Counsel
Jeffrey Page, Chief Operating Officer and Acting Chief Financial Officer
Tom Hanley, Chief Information Officer
Kathryn Gillis, Director, Office of Accountability and Oversight
David Zavada, Engagement Partner, Kearney & Company, P.C.

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Corporation for National and Community Service (the Corporation), which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, the related consolidated statements of operations and changes in net position, the consolidated statements of cash flows, and the combined statements of budgetary resources (SBR) (hereinafter referred to as the "financial statements") for the years then ended, as well as the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2015 and 2014, as well as its net cost of operations and changes in net position, cash flows, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the 2004 Executive Order, entitled "National and Community Service Programs" (E.O. 13331), requires a statement of assurance in the Corporation's Management Representation Letter by the Chief Executive Officer and Chief Financial Officer that its financial statements, including the SBR, are accurate and reliable. The Corporation has interpreted this requirement to include presenting the SBR as a principal financial statement. The Corporation's SBR is prepared in accordance with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KEARNEY&
COMPANY

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information contained in the Donations and Contributions, National Service Trust Fund (Trust) Status Report – September 2015, and Improper Payments sections of the Fiscal Year 2015 Agency Financial Report is presented for purposes of additional analysis and is not a required part of the financial statements. Except as described below, such information has not been subjected to the auditing procedures applied in the audits of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Certain information from the Trust Status Report – September 2015 statements of financial position, related statements of operations and changes in net position, statements of cash flows and combined SBR (hereinafter referred to as the "Trust financial statements") as of September 30, 2015 is presented as other information. In accordance with the requirements of the National and Community Service Act of 1990, as amended, we performed a separate audit of the Trust financial statements and issued a report thereon dated November 13, 2015.

Reports on Internal Control, Compliance, and Other Matters

In accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02, we have also issued reports, dated November 13, 2015, on our consideration of the Corporation's internal control over financial reporting and on our tests of the Corporation's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2015. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 13, 2015

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

FISCAL YEAR 2015 AND 2014
CONSOLIDATED FINANCIAL STATEMENTS

(Extracted From Fiscal Year 2015 Agency Financial Report)

Corporation for National and Community Service
Consolidated Statements of Financial Position
As of September 30, 2015 and 2014 *(dollars in thousands)*

Assets	2015	2014
Fund Balance with Treasury (Note 2)	$ 1,004,351	$ 971,738
Cash and Other Monetary Assets	79	125
Investments and Related Receivables (Note 3)	751,464	717,973
Advances to Others	57,288	58,122
Accounts Receivable, Net (Note 4)	8,157	9,278
Property and Equipment, Net (Note 5)	7,440	2,387
Total Assets	**$ 1,828,779**	**$ 1,759,623**
Liabilities		
Trust Service Award Liability (Note 6)	$ 454,890	$ 454,131
Grants Payable	96,978	95,571
Accounts Payable	5,149	5,103
Actuarial FECA Liability (Note 8)	8,328	9,255
Advances from Others (Note 9)	26,725	24,990
Accrued Annual Leave	4,301	4,244
Other Liabilities (Note 10)	14,912	14,273
Total Liabilities	**611,283**	**607,567**
Contingencies (Note 16)		
Net Position		
Unexpended Appropriation	915,432	890,367
Cumulative Results of Operations	302,064	261,689
Total Net Position (Note 11)	**$ 1,217,496**	**$ 1,152,056**
Total Liabilities and Net Position	**$ 1,828,779**	**$ 1,759,623**

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

Corporation for National and Community Service
Consolidated Statements of Operations and Changes in Net Position
For the Periods Ended September 30, 2015 and 2014 *(dollars in thousands)*

Revenue	**2015**	**2014**
Appropriated Capital Used	$ 779,799	$ 740,124
Appropriations Received by the National Service Trust (Note 12)	217,507	212,496
Interest	2,747	2,442
Revenue from Services Provided	40,450	44,545
Other	16,194	12,201
Total Revenue	**$ 1,056,697**	**$ 1,011,808**
Expenses		
AmeriCorps	$ 742,280	$ 707,310
SeniorCorps	221,788	219,678
Learn and Serve America	-	472
Innovation, Demonstration and Assistance Activities	47,702	42,165
Office of the Inspector General	4,552	3,458
Total Expenses (Note 13)	**1,016,322**	**973,083**
Net of Revenue Over Expenses	**$ 40,375**	**$ 38,725**
Net Position		
Net of Revenue over Expenses	$ 40,375	$ 38,725
Increase/(Decrease) in Unexpended Appropriations, Net (Note 15)	25,065	80,854
Increase/(Decrease) in Net Position, Net	65,440	119,579
Net Position, Beginning Balance	1,152,056	1,032,477
Net Position, Ending Balance (Note 11)	**$ 1,217,496**	**$ 1,152,056**

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

Corporation for National and Community Service
Consolidated Statements of Cash Flows
For the Periods Ended September 30, 2015 and 2014 *(dollars in thousands)*

CASH FLOWS FROM OPERATING ACTIVITIES	**2015**	**2014**
Net of Revenue over Expenses	$ 40,375	$ 38,725
Adjustments Affecting Cash Flow:		
Depreciation, Amortization, and Loss on Disposition of Assets	1,917	1,740
Amortization of Premium/(Discount) on Investments	(1,606)	(613)
Appropriated Capital Used	(779,799)	(740,124)
Appropriations Received in Trust	(217,507)	(212,496)
Appropriations Transferred to Other Federal Agencies	(1,000)	(2,000)
Decrease/(Increase) in Cash and Other Monetary Assets	46	(125)
Decrease/(Increase) in Accounts Receivable	1,121	323
Decrease/(Increase) in Interest Receivable	182	253
Decrease/(Increase) in Advances to Others	834	(2,122)
Increase/(Decrease) in Accounts Payable and Other Liabilities	685	2,868
Increase/(Decrease) in Advances from Others	1,735	(21,131)
Increase/(Decrease) in FECA and Annual Leave Liabilities	(870)	(332)
Increase/(Decrease) in Trust Liability	759	(10,143)
Increase/(Decrease) in Grants Payable	1,407	(7,554)
Total Adjustments	(992,096)	(991,456)
Net Cash Provided/(Used) by Operating Activities	**(951,721)**	**(952,731)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Securities	981,391	867,395
Purchase of Assets	(6,970)	(781)
Purchase of Securities	(1,013,458)	(891,843)
Net Cash Provided/(Used) in Investing Activities	**(39,037)**	**(25,229)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received, Net of Trust	1,054,954	1,049,954
Rescissions and Cancellations	(31,583)	(14,480)
Net Cash Provided by Financing Activities	**1,023,371**	**1,035,474**
Net Increase/(Decrease) in Fund Balance with Treasury	**32,613**	**57,514**
Fund Balance with Treasury, Beginning	**971,738**	**914,224**
Fund Balance with Treasury, Ending (Note 2)	**$ 1,004,351**	**$ 971,738**

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

Corporation for National and Community Service
Combined Statements of Budgetary Resources
For the Periods Ended September 30, 2015 and 2014 *(dollars in thousands)*

BUDGETARY RESOURCES	2015	2014
Unobligated, balance brought forward, October 1	$ 205,420	$ 213,255
Recoveries of unpaid prior year obligations	31,772	37,405
Other changes in unobligated balance	(31,583)	(14,480)
Unobligated balance from prior year budget authority, net	205,609	236,180
Appropriations Discretionary	1,053,954	1,047,954
Appropriation (special or trust funds)	217,514	212,589
Appropriation Discretionary (total)	1,271,468	1,260,543
Appropriation Mandatory (special or trust funds)	3,933	5,050
Appropriation (discretionary and mandatory)	1,275,401	1,265,593
Spending authority from offsetting collections (discretionary and mandatory)	50,718	27,911
Total Budgetary Resources	**$ 1,531,728**	**$ 1,529,684**

STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 19)	$ 1,300,749	$ 1,324,264
Unobligated balance, end of year:		
Apportioned (Note 2)	98,113	60,614
Unapportioned (Note 2)	132,866	144,806
Total unobligated balance, end of year	230,979	205,420
Total Budgetary Resources	**$ 1,531,728**	**$ 1,529,684**

(Continued)

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

Corporation for National and Community Service
Combined Statements of Budgetary Resources – Continued
For the Periods Ended September 30, 2015 and 2014 *(dollars in thousands)*

CHANGE IN OBLIGATED BALANCE	2015	2014
Unpaid obligations:		
Unpaid obligations, brought forward, October 1	$ 1,480,417	$ 1,387,779
Obligations incurred	1,300,749	1,324,263
Outlays (gross)	(1,225,581)	(1,194,220)
Recoveries of prior year unpaid obligations, actual	(31,772)	(37,405)
Unpaid Obligations, end of year	**1,523,813**	**1,480,417**
Uncollected payments:		
Uncollected payments, Federal sources, brought forward, October 1	(131)	(104)
Change in uncollected payments, Federal sources	(1,911)	(27)
Uncollected payments, Federal sources, end of year	**(2,042)**	**(131)**
Memorandum (non-add) entries:		
Obligated balance, start of year	$ 1,480,286	$ 1,387,675
Obligated balance, end of year (Note 2)	**$ 1,521,771**	**$ 1,480,286**

BUDGET AUTHORITY AND OUTLAYS, NET		
Budgetary authority, gross (discretionary and mandatory)	$ 1,326,119	$ 1,293,504
Actual offsetting collections (discretionary and mandatory)	(48,807)	(27,884)
Change in uncollected payments, Federal sources	(1,911)	(27)
Budget authority, net (discretionary and mandatory)	**$ 1,275,401**	**$ 1,265,593**
Outlays, gross (discretionary and mandatory)	1,225,581	1,194,220
Actual offsetting collections (discretionary and mandatory)	(48,807)	(27,884)
Outlays, net (discretionary and mandatory)	**1,176,774**	**1,166,336**
Distributed offsetting receipts	(218,475)	(214,188)
Agency outlays, net (discretionary and mandatory)	**$ 958,299**	**$ 952,148**

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

NOTE 1—Summary of Significant Accounting Policies

A. REPORTING ENTITY

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

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

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

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

CNCS, for the most part, administered its programs in FY 2015 from the following funds:

Trust and Gift Funds:

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

Appropriated Funds:

- Operating Expenses, from which CNCS funded Senior Corps, AmeriCorps, and other program activity.
- Salaries and Expenses, from which CNCS funded its general administrative expenses.
- Office of Inspector General (OIG), from which CNCS funded the expenses of the Office of Inspector General.
- AmeriCorps VISTA Advance Payment Revolving Fund, from which CNCS paid the living allowances for AmeriCorps VISTA members enrolled under cost share agreements with sponsoring organizations. CNCS is reimbursed for these costs by the sponsoring organization. Despite the account title, the AmeriCorps VISTA Advance Payment Revolving Fund is not a revolving fund, but rather a general fund expenditure account.

On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act included funding for the use of CNCS to support an expansion of the AmeriCorps State and National and VISTA programs. As a result of the passage of the Recovery Act, three additional appropriated funds were established:

- Operating Expenses, Recovery Act, from which CNCS funded the increased AmeriCorps State and National and VISTA membership as a result.
- Salaries and Expenses, Recovery Act, which funded CNCS's expenses to improve Information Technology (IT) systems and administer the increased AmeriCorps State and National and VISTA membership.
- OIG, Recovery Act, from which CNCS funded the expenses of the OIG's Recovery Act oversight responsibilities.

B. BASIS OF ACCOUNTING

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

C. FINANCIAL STATEMENT PRESENTATION AND CONSOLIDATION POLICY

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

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

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

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

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

In FY 2015, presentation changes have been made to facilitate a greater understanding of the statements and notes. Certain prior year amounts have been reclassified to conform to the current year presentation. No changes made were material at the financial statement line item or at the note line level.

D. BUDGETS AND BUDGETARY ACCOUNTING

The activities of CNCS are primarily funded through the annual Departments of Labor (DOL), Health and Human Services (HHS), Education, and Related Agencies Appropriation Act. CNCS's accounting structure reflects both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash. Federal budgetary accounting recognizes the obligation of appropriations and other funds upon the establishment of a properly documented legal liability, which, in many cases, is different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds.

E. ASSET AND LIABILITY VALUATION

CNCS values its investments at carrying value and discloses fair value. As of September 30, 2015, the carrying amounts of Fund Balance with Treasury, Cash and Other Monetary Assets, Accounts Receivable, Advances to Others, Accrued Interest Receivable, Accounts Payable, and Other Liabilities approximate their fair value.

F. FUND BALANCE WITH TREASURY

CNCS considers Fund Balance with Treasury (FBWT) to represent cash and cash equivalents. It is CNCS's cash accounts with the Department of the Treasury (Treasury). Treasury processes cash receipts and disbursements on behalf of CNCS and CNCS's accounting records are reconciled with those of Treasury on a regular basis. CNCS's FBWT includes all of its appropriated, gift, and trust funds.

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

G. CASH AND OTHER MONETARY ASSETS

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

H. INVESTMENTS AND RELATED RECEIVABLES

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

I. CASH EQUIVALENTS

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

J.ADVANCES TO OTHERS

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

K. ACCOUNTS RECEIVABLE

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

L. PROPERTY AND EQUIPMENT

Property and Equipment is stated at full cost, including all costs related to acquisition, delivery, and installation, less accumulated depreciation (or amortization). Normal maintenance and repair costs on capitalized property and equipment are expensed when incurred.

CNCS's general policy is to capitalize Property and Equipment if the initial acquisition price is $50 thousand or more. Property and equipment with an estimated useful life that extends beyond the year of acquisition is capitalized at historical cost and is depreciated (or amortized) on a straight-line basis over estimated useful lives ranging from two to ten years.

M. TRUST SERVICE AWARD LIABILITY

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

N. GRANTS PAYABLE

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

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

O. ACCOUNTS PAYABLE

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

P. ACTUARIAL FECA LIABILITY

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

Q. OTHER LIABILITIES

Other liabilities include amounts owed but not paid at the end of the fiscal year for payroll and benefits, AmeriCorps VISTA stipends, the amount of claims for benefits for CNCS employees under FECA that have been paid by DOL and billed to CNCS but have not yet been reimbursed to DOL, other unfunded employment related liability, liability for non-fiduciary deposit funds and undeposited collections, and accounts payable canceled appropriations.

R. ACCRUED ANNUAL LEAVE

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

S. ADVANCES FROM OTHERS

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

T. NET POSITION

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

U. REVENUE RECOGNITION

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

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

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

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

V. RETIREMENT BENEFITS

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

For employees covered by CSRS, CNCS contributes seven percent of their basic pay. For those employees covered by FERS, CNCS contributes 11.2 percent of their gross pay towards retirement. Employees are allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, CNCS contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional four percent of pay, for a maximum CNCS contribution amounting to five percent of pay. Employees under CSRS may participate in the TSP, but will not receive either CNCS's automatic or matching contributions.

W. INCOME TAXES

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

X. USE OF ESTIMATES

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

Y. COMPARATIVE DATA

CNCS's financial statements provide comparative information for FY 2015 and 2014.

Z. 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. CNCS's management believes the risk of such an occurrence is remote.

NOTE 2—Fund Balance with Treasury

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

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

Fund Balance with Treasury as of September 30, 2015 *(dollars in thousands)*

	UNRESTRICTED	RESTRICTED		
Type	Appropriated Funds	Trust Funds	Gift Funds	Total
Obligated Not Yet Disbursed	$ 886,406	$ 635,320	$ 45	$ 1,521,771
Unobligated Available	24,435	73,335	343	98,113
Unobligated Unavailable	82,669	50,197	-	132,866
Non Budgetary FBWT	2,033	-	-	2,033
Investments *	-	(750,432)	-	(750,432)
Total	**$ 995,543**	**$ 8,420**	**$ 388**	**$ 1,004,351**

Fund Balance with Treasury as of September 30, 2014 *(dollars in thousands)*

	UNRESTRICTED	RESTRICTED		
Type	Appropriated Funds	Trust Funds	Gift Funds	Total
Obligated Not Yet Disbursed	$ 856,822	$ 623,340	$ 124	$ 1,480,286
Unobligated Available	11,891	48,351	372	60,614
Unobligated Unavailable	94,136	50,670	-	144,806
Non Budgetary FBWT	1,787	-	-	1,787
Investments *	-	(715,755)	-	(715,755)
Total	**$ 964,636**	**$ 6,606**	**$ 496**	**$ 971,738**

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

In FY 2015, CNCS restructured the FBWT line item on the balance sheet, and Note 2 FBWT, to present the Cash and Other Monetary Assets balance separately from the FBWT balance. The changes were done to reflect a more accurate presentation of the FBWT balance, and to align the Unobligated Available and Unobligated Unavailable balances in Note 2 to the Statement of Budgetary Resources line items Apportioned and Unapportioned, respectively.

NOTE 3—Investments and Related Receivables

Investments and Related Receivables as of September 30 *(dollars in thousands)*

	2015	2014
Investments, Carrying Value	$ 750,977	$ 717,304
Interest Receivable	487	669
Total	**$ 751,464**	**$ 717,973**

Amortized Cost and Fair Value of Investment Securities as of September 30, 2015 *(dollars in thousands)*

Securities	Amortized Cost	Unrealized Gains/(Losses)	Fair Value
Notes	$ 328,823	$ 652	$ 329,475
Bills	422,154	142	422,296
Total	**$ 750,977**	**$ 794**	**$ 751,771**

Amortized Cost and Fair Value of Investment Securities as of September 30, 2014 *(dollars in thousands)*

Securities	Amortized Cost	Unrealized Gains/(Losses)	Fair Value
Notes	$ 459,781	$ 596	$ 460,377
Bills	257,523	37	257,560
Total	**$ 717,304**	**$ 633**	**$ 717,937**

As of September 30, 2015, the notes held at year-end had an interest rate range of 0.250 percent to 0.625 percent and an outstanding maturity period of approximately 197 days to two years. The bills held at year-end had an interest rate range of 0.000 percent to 0.415 percent and were all due to mature within 364 days. The par values of notes range from $9.6 million to $148.3 million. The fair value of the bills and notes is based on bid and ask prices quoted by Treasury as of September 30, 2015, and 2014.

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, 2015, $50.2 million of CNCS's investment account has been set aside for this reserve.

NOTE 3—Investments and Related Receivables–Continued

Maturation of Securities Held as of September 30 *(dollars in thousands)*

	2015		2014	
Held-to-Maturity Securities	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 523,225	$ 523,435	$ 537,761	$ 538,417
Due after 1 year up to 5 years	227,752	228,336	179,543	179,520
Total	**$ 750,977**	**$ 751,771**	**$ 717,304**	**$ 717,937**

NOTE 4 – Accounts Receivables, Net

Accounts Receivable as of September 30 *(dollars in thousands)*

	Appropriated Funds	Trust Fund	Total
2015			
Accounts receivable	$ 9,196	$ 355	$ 9,551
Less: allowance for doubtful accounts	(1,300)	(94)	(1,394)
Accounts Receivable, Net	**$ 7,896**	**$ 261**	**$ 8,157**
2014			
Accounts receivable	$ 9,875	$ 274	$ 10,149
Less: allowance for doubtful accounts	(826)	(45)	(871)
Accounts Receivable, Net	**$ 9,049**	**$ 229**	**$ 9,278**

NOTE 5—Property and Equipment, Net

General Property and Equipment as of September 30, 2015 *(dollars in thousands)*

Major Class	Service Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 - 10	$ 4,010	$ (2,534)	$ 1,476
ADP software in development	N/A	4,464	–	4,464
ADP software	2	13,847	(12,347)	1,500
Total		**$ 22,321**	**$ (14,881)**	**$ 7,440**

General Property and Equipment as of September 30, 2014 *(dollars in thousands)*

Major Class	Service Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 - 10	$ 2,586	$ (2,267)	$ 319
ADP software in development	N/A	42	–	42
ADP software	2	12,722	(10,696)	2,026
Total		**$ 15,350**	**$ (12,963)**	**$ 2,387**

NOTE 6—Trust Service Award Liability

Individuals who successfully complete terms of service in AmeriCorps programs earn education awards, which can be used to make payments on qualified student loans or for educational expenses at qualified educational institutions. The awards, which are available to use for a period of up to seven years after the benefit has been earned, are paid from the National Service Trust.

The National Service Trust also pays forbearance interest on qualified student loans during the period members perform community service, as well as awards under the Presidential Freedom Scholarship Program. The award liability components related to education awards and interest forbearance have been adjusted, based on historical experience, to reflect the fact that some eligible participants may not use these benefits. The Service Award was composed of the following as of September 30:

Service Award Liability as of September 30 *(dollars in thousands)*

	2015	2014
Education awards	$ 2,647,027	$ 2,469,053
Interest forbearance	103,258	89,677
President's Freedom Scholarship Program	22,527	22,527
Total estimated service award liability	2,772,812	2,581,257
Less: cumulative awards paid	(2,317,922)	(2,127,126)
Total	**$ 454,890**	**$ 454,131**

The Net Service Award Liability as of September 30, 2015 increased by approximately $0.76 million from the Net Service Award Liability as of September 30, 2014. As of October 1, 2009, the National Service Trust is also available to pay Summer of Service and Silver Scholar education awards. However, the Silver Scholar program was not funded and no current liability was accrued for those educational awards. The Summer of Service program was only funded in FY 2010.

NOTE 7—Operating Leases

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

Estimated Operating Lease Commitments as of September 30 *(dollars in thousands)*

	2015				2014			
Fiscal Year	Facilities Space	Vehicles	Other	Total	Facilities Space	Vehicles	Other	Total
2015	$ -	$ -	$ -	$ -	$ 10,414	$ 298	$ 540	$ 11,252
2016	11,522	795	554	12,871	10,381	309	522	11,212
2017	11,846	813	561	13,220	10,702	322	531	11,555
2018	12,179	832	575	13,586	11,033	335	532	11,900
2019	12,523	852	598	13,973	11,374	348	541	12,263
2020	12,876	872	622	14,370	-	-	-	-
Total	**$ 60,946**	**$ 4,164**	**$ 2,910**	**$ 68,020**	**$ 53,904**	**$ 1,612**	**$ 2,666**	**$ 58,182**

NOTE 8—Actuarial FECA Liability

CNCS's actuarial liability for future workers' compensation benefits under FECA was $8.3 million and $9.3 million as of September 30, 2015, and 2014, respectively. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. As with all federal agencies CNCS's FECA liability is determined by DOL. The actuarial liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds.

NOTE 9—Advances from Others

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

Advancess from Others as of September 30 *(dollars in thousands)*

	2015	2014
Advances from Others-Federal	$ 26,725	$ 24,937
Advances from Others-NonFederal	-	53
Total Advances from Others	**$ 26,725**	**$ 24,990**

NOTE 10—Other Liabilities

Other liabilities include amounts owed but not paid at the end of the fiscal year for payroll and benefits, AmeriCorps VISTA stipends, the amount of claims for benefits for CNCS's employees under FECA that have been paid by DOL and billed to CNCS but have not yet been reimbursed to DOL, other unfunded employment related liability, liability for non-fiduciary deposit funds and undeposited collections, and accounts payable canceled appropriations.

Other Liabilities as of September 30 *(dollars in thousands)*

	2015	2014
Accrued Funded Payroll and Benefits	$ 2,180	$ 1,854
Unfunded FECA Liability	2,076	2,193
Member Payroll Related Liabilities	3,808	3,516
Liability for Non-Entity Assets	3,481	3,162
Other	3,367	3,548
Total Other Liabilities	**$ 14,912**	**$ 14,273**

NOTE 11—Net Position

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

Net Position by Fund Balance Component as of September 30, 2015 *(dollars in thousands)*

	Appropriated Funds	Trust Funds	Gift Funds	Total
Unexpended appropriations	$ 915,432	$ -	$ -	$ 915,432
Cumulative results of operations	(3,576)	305,255	385	302,064
Total Net Position	**$ 911,856**	**$ 305,255**	**$ 385**	**$ 1,217,496**

(Continued)

NOTE 11—Net Position–Continued

Net Position by Fund Balance Component as of September 30, 2014 *(dollars in thousands)*

	Appropriated Funds	Trust Funds	Gift Funds	Total
Unexpended appropriations	$ 890,367	$ -	$ -	$ 890,367
Cumulative results of operations	(9,450)	270,677	462	261,689
Total Net Position	**$ 880,917**	**$ 270,677**	**$ 462**	**$ 1,152,056**

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 following table presents the Corporation's unrestricted and temporarily restricted net assets

Restrictions on Net Position as of September 30, 2015 *(dollars in thousands)*

	Unrestricted	Temporarily Restricted	Total
Appropriated Funds	$ 911,856	$ -	$ 911,856
Trust Funds	-	305,255	305,255
Gift Funds	-	385	385
Total Net Position	**$ 911,856**	**$ 305,640**	**$ 1,217,496**

Restrictions on Net Position as of September 30, 2014 *(dollars in thousands)*

	Unrestricted	Temporarily Restricted	Total
Appropriated Funds	$ 880,917	$ -	$ 880,917
Trust Funds	-	270,677	270,677
Gift Funds	-	462	462
Total Net Position	**$ 880,917**	**$ 271,139**	**$ 1,152,056**

NOTE 12—Appropriations Received by the National Service Trust

As of September 30, 2015, and 2014, the National Service Trust received $209.6 million and $207.4 million, respectively. CNCS is also authorized to transfer additional amounts from subtitle C program funds to the National Service Trust to support the activities of national service participants. Under the provisions of the law, CNCS transferred $7.9 million and $5.1 million to the Trust in FY 2015 and FY 2014, respectively. Accordingly, the National Service Trust received a total funding of $217.5 million in FY 2015, and $212.5 million in FY 2014, respectively.

NOTE 13—Expenses

Using an appropriate cost accounting methodology, CNCS's expenses have been allocated among its major programs, at the sub-program level.

Costs for each sub-program are reported on separately:

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

The Senior Corps programs provide opportunities for members 55 and older to address local community needs in the areas of education, assisting veterans and military families, disaster response, and healthy futures. Senior Corps includes the Foster Grandparent Program (FGP); Senior Companion Program (SCP); and the Retired and Senior Volunteer Program (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.

Learn and Serve America includes grant expenses, as well as direct and allocated personnel and administrative costs, for the Learn and Serve America Program, the President's Student Service Challenge, and National Service Leader Schools. The Learn & Serve program was not funded in FY 2011; however, there was on-going activity through FY 2014 as the program wound down.

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.

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

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

Components of Grant Funds Expended for the Period Ended September 30 *(dollars in thousands)*

	2015	2014
Domestic Volunteer Service Act Programs	$ 224,267	$ 223,680
National and Community Service Act Programs	370,473	344,812
Total Grant Funds Expended	**$ 594,740**	**$ 568,492**

(Continued)

NOTE 13—Expenses–Continued

Expenses by Major Responsibility Segment for the Period Ended September 30 *(dollars in thousands)*

	2015		2014	
AmeriCorps				
State and National	$ 569,506		$ 535,574	
NCCC	39,597		39,698	
VISTA	133,177		132,038	
Subtotal		**$ 742,280**		**$ 707,310**
Senior Corps				
RSVP	56,316		54,994	
Foster Grandparent Program	116,241		116,428	
Senior Companion Program	$ 49,231		$ 48,256	
Subtotal		**221,788**		**219,678**
Learn and Serve America		-		472
Innovation, Demonstration & Assistance Activities		47,702		42,165
Office of Inspector General (OIG)		4,552		3,458
Total Expenses		**$1,016,322**		**$ 973,083**

Expenses by Type and Sub-Program for the Period Ended September 30, 2015 *(dollars in thousands)*

	AmeriCorps			National Senior Service Corps						
Type	**State/National**	**NCCC**	**VISTA**	**RSVP**	**FGP**	**SCP**	**Learn & Serve**	**ID&A Activities**	**OIG**	**Total**
Grant and Related Expense										
Grant funds expended	$ 325,815	$ 65	$ 32,999	$ 47,797	$ 100,896	$ 42,575	$ -	$ 44,593	$ -	$ 594,740
VISTA and NCCC stipends and benefits	-	8,593	51,758	-	-	-	-	-	-	60,351
Service award expense	164,878	4,808	21,889	-	-	-	-	-	-	191,575
Total Grant and Related Expense	**490,693**	**13,466**	**106,646**	**47,797**	**100,896**	**42,575**	**-**	**44,593**	**-**	**846,666**
Administrative Expense										
Federal employee salaries and benefits	43,852	1,101	8,045	3,985	8,520	3,599	-	-	2,874	71,976
Travel and transportation	3,740	5,600	1,778	340	727	307	-	-	82	12,574
Rent, communications, and utilities	6,726	4,906	1,118	611	1,307	552	-	-	7	15,227
Program analysis and evaluation	2,593	46	430	236	504	212	-	-	-	4,021
Printing and reproduction	50	37	10	150	36	23	-	-	-	306
Other services and expenses	20,270	11,687	14,856	3,054	3,944	1,833	-	3,109	1,588	60,341
Supplies and materials	257	2,730	74	23	50	21	-	-	1	3,156
Depreciation, amortization, and loss on disposition of assets	1,236	22	205	112	240	102	-	-	-	1,917
Bad debt	89	2	15	8	17	7	-	-	-	138
Total Administrative Expense	**78,813**	**26,131**	**26,531**	**8,519**	**15,345**	**6,656**	**-**	**3,109**	**4,552**	**169,656**
Total Expenses by Type	**$ 569,506**	**$ 39,597**	**$ 133,177**	**$ 56,316**	**$ 116,241**	**$ 49,231**	**$ -**	**$ 47,702**	**$ 4,552**	**$ 1,016,322**

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Expenses by Type and Sub-Program for the Period Ended September 30, 2014 *(dollars in thousands)*

	AmeriCorps			National Senior Service Corps						
Type	**State/National**	**NCCC**	**VISTA**	**RSVP**	**FGP**	**SCP**	**Learn & Serve**	**ID&A Activities**	**OIG**	**Total**
Grant and Related Expense										
Grant funds expended	$ 303,511	$ -	$ 34,375	$ 46,756	$ 100,907	$ 41,642	$ 371	$ 40,930	$ -	$ 568,492
VISTA and NCCC stipends and benefits	-	9,414	52,677	-	-	-	-	-	-	62,091
Service award expense	155,001	3,766	18,640	-	-	-	-	-	-	177,407
Total Grant and Related Expense	**458,512**	**13,180**	**105,692**	**46,756**	**100,907**	**41,642**	**371**	**40,930**	**-**	**807,990**
Administrative Expense										
Federal employee salaries and benefits	41,304	3,311	8,208	3,970	8,584	3,570	47	-	2,448	71,442
Travel and transportation	3,345	4,392	1,685	321	695	289	4	-	83	10,814
Rent, communications, and utilities	5,977	4,818	1,049	573	1,240	516	7	-	-	14,180
Program analysis and evaluation	2,373	50	416	228	493	205	3	-	-	3,768
Printing and reproduction	77	30	14	7	67	7	-	-	-	202
Other services and expenses	22,330	11,749	14,684	2,980	4,098	1,883	38	1,235	923	59,920
Supplies and materials	540	2,145	95	52	112	47	1	-	4	2,996
Depreciation, amortization, and loss on disposition of assets	1,096	23	192	105	228	95	1	-	-	1,740
Bad debt	20	-	3	2	4	2	-	-	-	31
Total Administrative Expense	**77,062**	**26,518**	**26,346**	**8,238**	**15,521**	**6,614**	**101**	**1,235**	**3,458**	**165,093**
Total Expenses by Type	**$ 535,574**	**$ 39,698**	**$ 132,038**	**$ 54,994**	**$ 116,428**	**$ 48,256**	**$ 472**	**$ 42,165**	**$ 3,458**	**$ 973,083**

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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, 2015, and 2014, respectively, has been adjusted to reflect the fact that earned awards are not always used.

National Service Award Expense for the Period Ended September 30 *(dollars in thousands)*

	2015	2014
Estimated education awards	$ 179,586	$ 167,334
Estimated interest forbearance	11,989	10,073
National Service Award Expense	**$ 191,575**	**$ 177,407**

NOTE 15—Change in Unexpended Appropriations, Net

Unexpended Appropriations, Net as of September 30 *(dollars in thousands)*

	2015	2014
Unexpended appropriations, beginning balance	$ 890,367	$ 809,513
Increases:		
Appropriations received	1,054,954	1,049,954
Decreases:		
Appropriated capital used	(779,799)	(740,124)
Appropriations transferred to Trust Fund (net of rescissions)	(209,618)	(207,387)
Program funds transferred to Trust Fund	(7,889)	(5,109)
Appropriations transferred to other federal agencies	(1,000)	(2,000)
Rescissions and cancellations	(31,583)	(14,480)
Total decreases	(1,029,889)	(969,100)
Change in Unexpended Appropriations	25,065	80,854
Unexpended Appropriations, Ending Balance	**$ 915,432**	**$ 890,367**

NOTE 16—Contingencies

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

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

NOTE 17—Subsequent Events

CNCS has evaluated subsequent events through November 13, 2015, which is the date these financial statements were available to be issued. As a consequence of its evaluation, CNCS has determined that no subsequent events need to be recognized or disclosed.

NOTE 18—Undelivered Orders at Fiscal Year-End

CNCS's undelivered orders as of September 30, 2015, and 2014 were $1,020 million and $979.9 million, respectively.

NOTE 19—Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

An apportionment is a distribution by OMB of amounts available for obligation. OMB apportions CNCS's funds on both a quarterly and annual basis. Obligations incurred as of September 30, 2015, and 2014 were:

Consolidated Obligations Incurred through September 30 *(dollars in thousands)*

Fiscal Year	Direct	Reimbursable	Total
2015	$ 1,252,132	$ 48,617	**$ 1,300,749**
2014	$ 1,275,003	$ 49,261	**$ 1,324,264**

NOTE 20—Contributed Capital (Donations)

Under CNCS's authorizing legislation, donated funds may be accepted and used in furtherance of the purposes of the national service laws (42 U.S.C. 12651 g(a)(2)(A)). Donated funds received by CNCS as of September 30, 2015 and 2014, were $7.5 and $93.1 thousand, respectively.

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the consolidated financial statements of the Corporation for National and Community Service (the Corporation) and the Corporation's National Service Trust Fund (Trust) as of and for the year ended September 30, 2015, and we have issued our reports thereon dated November 13, 2015. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 15-02, *Audit Requirements for Federal Financial Statements*.

Internal Control over Financial Reporting

In planning and performing our audits of the consolidated financial statements, we considered the Corporation'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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 15-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies.

We noted certain additional matters involving internal control over financial reporting that we will report to the Corporation's management in a separate letter.

Status of Prior Year Findings

In the Independent Auditor's Report on Internal Control over Financial Reporting included in the audit report on the Corporation's fiscal year (FY) 2014 financial statements,[1] we noted two issues that were related to internal control over financial reporting. The status of the FY 2014 internal control findings are summarized in Table 1.

Table 1: Status of Prior Year Findings

Control Deficiency	FY 2014 Status	FY 2015 Status
Information Technology	Significant Deficiency	Significant Deficiency
Integrity Assurance Program	Significant Deficiency	Significant Deficiency

The Corporation's Response to Findings

The Corporation's response to the findings identified in our audits is described in a separate letter in Section III of the Agency Financial Report (AFR). The Corporation's response was not subjected to the auditing procedures applied in our audits of the financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02 in considering the Corporation's internal control. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 13, 2015

[1] *Independent Auditor's Report on Internal Control over Financial Reporting and Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements*

Schedule of Findings

Significant Deficiencies

I. Integrity Assurance Program (Repeat Condition)

The Corporation for National and Community Service (the Corporation) is subject to the reporting requirements of the Government Corporation Control Act and is therefore subject to Federal Managers' Financial Integrity Act of 1982 (FMFIA); Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*; and the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (also known as the "Green Book"), incorporated by reference within these requirements. Collectively, these laws, regulatory guidance, and standards require agencies to establish effective internal controls over program and financial operations. The Corporation has struggled with meeting these requirements and does not yet have a fully functioning internal control monitoring process in place to determine the effectiveness of internal controls and support management's required annual assurance statement under FMFIA.

The adequacy and effectiveness of the Corporation's internal controls depends in large measure on the effectiveness of a risk assessment and integrity assurance process that remains flawed. Improving these processes is urgent, as the revised 2014 GAO Green Book requirements in effect in FY 2016 and the up-coming revision of the OMB Circular A-123 have become increasingly prescriptive and demanding. The lack of an effective internal control monitoring program means that financial, operational, and compliance objectives may not be met and risks may not be adequately identified and mitigated.

Governance and Oversight not Effective

The governance and oversight of the integrity assurance program have not been effective. The governing bodies have not met as described in their charters. In FY 2014, the Corporation established the Integrity Steering Committee (ISC) to function as a Senior Assessment Team in carrying out internal control monitoring. As required by the ISC charter, the ISC members are to meet monthly to oversee the Corrective Action Plans (CAP); however, they did not meet in October or November 2014. In FY 2015, the Corporation established the Senior Risk Management Council (SRMC). The SRMC, which is to meet bi-monthly as described in the charter, met only in February and June in FY 2015. Additionally, the Corporation could not provide the auditors with the approved meeting minutes mandated by its charter. The SRMC is responsible for reviewing and validating CAPs. The Corporation is currently not following up on CAPs to ensure they have been implemented. The Office of Grants Management (OGM) monitors its own CAPs. These are not discussed at the ISC or SRMC meetings; therefore, there is no meaningful oversight or governing body holding OGM accountable for its CAPs.

Numerous OAO Responsibilities Inhibit its Effectiveness

Ongoing vacancies and resource constraints hamper the Office of Accountability and Oversight's (OAO) ability to stand up an effective program. The OAO is currently made up of seven individuals: the Director, two Improper Payments Elimination and Recovery Act (IPERA) support specialists, one staff accountant, one program analyst, one internal control and analysis position (not a full-time position), and one accountability and oversight position for grant monitoring.

The biography of the OAO Director, as extracted from the 2015 Southwest National Service Conference agenda, states that she "oversee[s] the enterprise risk management program. She and her team are responsible for internal controls, Improper Payment Elimination Recover Act (IPERA) requirements, and facilitation of the grants monitoring program." Given the state of the Corporation's internal control governance and program, the magnitude of the IPERA process and difficulties encountered to date, the recognition of the need to develop a more robust and rigorous grant monitoring approach through information technology (IT) modernization, and the substantial long-term effort necessary to introduce and develop enterprise risk management at the Corporation, OAO cannot make significant progress, much less accomplish these objectives, with its current level of resources; indeed, each of these areas could arguably require the full-time attention of the OAO Director. Given the requirements of the revised 2014 GAO Green Book that are in effect for FY 2016, the demands on OAO will increase. In addition, OAO staff does not have the IT skills to perform an assessment of information systems controls and did not supplement their capabilities with outside expertise. Therefore, the IT testing was inadequate.

An Incomplete Risk Assessment Process Omitted Significant Risks

The Corporation's risk assessment process is still incomplete and needs to be more comprehensive in identifying the range of risks faced by the Corporation. The GAO *Standards for Internal Control in the Federal Government* also require a detailed fraud risk assessment and the responses to those risks be performed and incorporated into the risk assessment process. Based on the assessment documentation, OAO's testing of grants did not cover the entire material risk spectrum, focusing solely on timeliness of documentation and approvals. OAO performed no testing in the area of grants monitoring/grants management by OGM, the use of single audit results, or drawdowns, nor was there any testing of the grant application process, a key process for limiting the Corporation's risk.

Deterioration of Quality Control

Strong financial accounting operations are essential to accountability within an organization and are an important avenue for exercising control over an entity's various activities. Kearney & Company, P.C. (Kearney) noted a number of gaps in the controls in this area, which directly affected performance of the audit. Accounting and Financial Management Services (AFMS) did not cross-train its staff to perform each other's duties, which puts the Corporation at risk of potentially serious errors or gaps when staff members leave the Corporation or transition to other jobs within the agency. No staff member was trained or tasked to perform the responsibilities of the Chief of the Financial Reports and Analysis Branch (FRAB) position, which was left vacant for most of FY 2015. The Corporation relied on OAO efforts for financial-related tasks when AFMS should have been responsible for these tasks. The lack of cross-training negatively impacted the progress of the FY 2015 financial statement audit. Kearney received an extraordinarily high number of Provided by Client (PBC) items that included errors, were incomplete, or were inconsistent with other PBC items. There was no quality control process for these items; data was not validated and basic errors were not caught. Poor documentation processes and practices also affected programmatic operations. Changes in processes are not clearly documented. For example, in FY 2015, National Civilian Community Corps (NCCC) changed its process for documenting results of NCCC members' criminal history checks of the National Sex Offender Public Website (NSOPW). The change was not formally communicated to the relevant stakeholders within the Corporation. As a result, NCCC campuses may have been maintaining inconsistent documentation.

II. Information Technology (Repeat Condition)

The Corporation's IT internal control structure, both for the general support systems (GSS) and significant financial reporting applications, did not support an effective internal control environment in four of five categories of general controls: security management, access controls, configuration management, and contingency planning. The National Institute of Standards and Technology (NIST) and the GAO Federal Information System Controls Audit Manual (FISCAM) provide control objectives and evaluation techniques that we used during our audit. For efficiency, Kearney conducted the audit of IT internal controls in conjunction with the Corporation's annual Federal Information Security Modernization Act of 2014 (FISMA) evaluation.

The FISMA legislation requires the Office of Inspector General (OIG) to perform an annual evaluation of a Federal agency's information security program, including testing security controls for a representative subset of an agency's systems. Kearney performed the annual FISMA evaluation of the Corporation's information security and privacy program for FY 2015 on behalf of the OIG and prepared responses to 100 FISMA security metric questions. Of the 100 security metric questions, our testing identified 54 new or reoccurring instances of noncompliance with OMB and NIST guidance. These 54 control deficiencies were consolidated into 17 reported findings within the FY 2015 FISMA report, dated November 13, 2015. Eight of these findings reoccurred from FY 2014 and five reoccurred from FY 2013.

Collectively, these control deficiencies in the Corporation's information security and privacy program increase the risk of fraud, waste, and abuse, as well as the likelihood that an information security breach may occur and result in loss of sensitive information. The loss of sensitive information, such as personally identifiable information (PII), could result in significant financial liabilities for the Corporation to investigate and remediate the security breach, as well as requiring the purchase of credit monitoring and fraud protection services for the affected individuals. Based on our integrated test work, Kearney concluded that the Corporation's information security and privacy program was not compliant in a number of respects with the FISMA legislation, OMB guidance, and applicable NIST security publications as of September

30, 2015. Overall, the Corporation needs to take substantial corrective action to address IT deficiencies identified in the FY 2015 FISMA report. Management has reported these significant deficiencies as a material weaknesses under FMFIA, consistent with the FISMA legislation and OMB reporting guidance.

The list of 17 findings, organized by FISCAM control area, is presented on the following pages.

Security Management

1. *Lack of a Formally Documented and Fully Implemented Information Security Continuous Monitoring (ISCM) Strategy (Repeat Finding since FY 2013 FISMA Evaluation)* – The Corporation has not formally documented and implemented an organization-wide ISCM strategy and program, as mandated by OMB guidance and as required by several NIST Special Publications (SP), including NIST SP 800-137, NIST SP 800-37, Revision (Rev.) 1, NIST SP 800-39, and NIST SP 800-53 Rev. 4. As part of monitoring its outsourced information systems, the Corporation has not developed meaningful and reportable performance metrics to evaluate the IT contractors' performance and has not incorporated such performance metrics into its IT contracts.

2. *Organizational Conflict of Interest (Repeat Finding from FY 2014 FISMA Evaluation)* – NIST SP 800-53, Rev. 4 requires that security assessors be independent and impartial when performing security assessments for Federal Information Processing Standard (FIPS) Publication (PUB) 199-rated "moderate" and "high" impact information systems. The Corporation permitted its managed data center services (MDCS) contractor to perform the Security Assessment and Authorization (SA&A) of the Corporation's GSS and Electronic System for Programs Agreements and National Service Participants (eSPAN) information systems rather than requiring the MDCS contractor to hire an independent party. The security assessors, who had primary responsibility for monitoring the Corporation's network, worked for the MDCS contractor and reported to the overall Project Manager. The security assessors were effectively reviewing their own work and that of their colleagues; their employment status, assigned job responsibilities, and organizational reporting relationships precluded an impartial and objective evaluation of security controls.

   The Corporation has taken steps to resolve this prior year weakness by hiring an independent Information Assurance Program Support (IAPS) contractor in May 2015 to perform a review and validation of security assessments. However, the IAPS contractor had not completed any independent security assessments as of August 2015. During the period of October 1, 2014 to July 31, 2015, the MDCS contractor staff, rather than an independent party, performed the required security control assessments. The Corporation indicated that the IAPS contractor would assume these responsibilities in future years.

3. *Inadequate Enterprise-Wide Risk Management Policies and Practices (Repeat Finding since FY 2013 FISMA Evaluation)* – The Corporation's documented risk management policies and security controls described the risk management process at the information system (Tier 3) level but did not address risks at Tier 1 (Organization) and Tier 2

(Mission/Business). The risk management practices largely do not involve the individuals who are responsible for accomplishing organizational, mission, and business objectives on a daily basis, such as the business owner or application owner. The Corporation has made improvements in risk management and has documented, in draft format, three levels of management to cover the enterprise level (Tier 1), the missions/business level (Tier 2), and the information systems level (Tier 3). However, the Corporation has not conducted a Business Impact Analysis (BIA) to identify mission-critical business functions and quantify the impact of a loss of those functions.

4. *Weaknesses with the Corporation's Security Planning and Assessment Process (Repeat Finding since FY 2013 FISMA Evaluation)* – The Corporation did not develop standards for its multiple IT contractors to follow regarding ongoing security assessments and continuous monitoring activities. Kearney's testing of IT security controls across multiple Corporation information systems identified numerous inconsistencies and inaccuracies in the system security plans, security assessment reports, and Plan of Action and Milestones (POA&M), highlighting the inconsistent nature, depth, and quality of security assessments and continuous monitoring activities performed by the Corporation's IT vendors.

5. *Lack of Formal Role-Based Training (Repeat Finding since FY 2013 FISMA Evaluation)* – The Corporation has not implemented a formal, documented role-based information security training program for individuals with significant security responsibilities as required by NIST. Without regular training, individuals with significant information security responsibilities may not keep abreast of new IT threats and vulnerabilities and the techniques to mitigate them.

6. *Improvements Needed to POA&M Reporting (Repeat Finding since FY 2013 FISMA Evaluation)* – The Corporation's POA&Ms did not identify resources required to resolve open tasks, such as estimating the level of effort in hours or other costs to procure contractor support or tools. Additionally, none of the 60 open Corporation POA&M items specified the resources required for issue resolution, and 56 of the 60 items listed on the Corporation's May 2015 POA&M lacked a scheduled remediation date. Finally, the Corporation did not document its acceptance of risk for items that it chose not to remediate or indicate any planned mitigating controls.

7. *Inadequate Controls over Privacy (Repeat Finding from FY 2014 FISMA Evaluation)* – The Corporation demonstrated multiple weaknesses in the implementation of privacy controls, such as documenting its implementation of required NIST SP 800-53 privacy controls, maintaining a complete inventory of PII, and complying with requirements to destroy outdated records containing PII in accordance with records retention schedules.

8. *Inadequate Procurement Process of IT* – The Corporation did not timely replace the MDCS contract upon its expiration. Instead, the MDCS contract was repeatedly extended for a total of eight months, allowing multiple high-risk security vulnerabilities identified in prior FISMA evaluations to persist.

9. *Outdated Information Technology Strategic Plan and Lack of Enterprise Architecture Plan* – The Corporation's current IT strategic plan was last updated in FY 2013 and does not reflect current IT modernization efforts. Specifically, the IT strategic plan does not describe the Corporation's long-term goals and strategies for leveraging IT to satisfy business needs. Additionally, the IT strategic plan does not describe a strategy to protect sensitive information and PII in a cloud environment while satisfying Federal information security requirements. Furthermore, the Corporation has not defined how its information security investments and security strategy fit in the IT strategic plan. Finally, the Corporation has not created an Enterprise Architecture Plan (EAP).

10. *Inaccurate Inventory of Physical IT Assets* **–** In July 2015, Kearney visited the Philadelphia Field Financial Management Center (FFMC), the Pennsylvania State Office, the Baltimore National Civilian Community Corps (NCCC) campus, and the Maryland State Office to evaluate the accuracy of the sites' IT inventory. Kearney noted that none of the sites had an accurate inventory of physical IT assets maintained onsite and that some physical IT assets that were onsite were not listed on the inventory spreadsheet.

Access Controls

11. *Use of an Obsolete and Unsupported Network Monitoring Tool (Repeat Finding from FY 2014 FISMA Evaluation)* – The Corporation's primary tool for network access control, monitoring, and audit log analysis was obsolete and unsupported[2] by the vendor.

12. *Risks to the Confidentiality and Availability of Voice Communications (Repeat Finding from FY 2014 FISMA Evaluation)* – The Corporation does not separate its data network traffic from its voice network traffic. Corporation desktops were able to ping (query) Cisco Voice over Internet Protocol (VoIP) phones and VoIP servers at local and remote offices. In addition, users were able to access the Cisco VoIP phones using their desktops' web browser over unencrypted hypertext transfer protocol. The connectivity between the data and voice virtual local area networks (VLAN) could be exploited by malicious individuals to compromise VoIP components, which generally were not designed with security in mind and could allow an attacker to intercept and record phone calls.

13. *Access Controls Need Improvement* – The Corporation's user account access review process was not effective at identifying inactive accounts or accounts belonging to departed employees or contractors due to the manual process involved in granting and removing user account access. Additionally, the Corporation's process for the quarterly review of Momentum accounts did not require the System Administrator (SA) to disable an account if the individual's supervisor failed to confirm that user's access and roles remained valid.

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[2] Cisco MARS is an appliance for logging, analysis, and retention. The tool is designed to detect changes to network devices and servers through log analysis. Cisco announced End-of-Life on May 5, 2008; the Corporation and the GSS contractor did not identify and implement a replacement tool before support ended on November 30, 2011.

Configuration Management

14. *Multiple Weaknesses with Vulnerability Scanning and Remediation (Repeat Finding from FY 2014 FISMA Evaluation)* – The Corporation has taken some steps, but with limited progress, to resolve the prior year weaknesses. Kearney identified four deficiencies related to vulnerability scanning and the remediation process at the Corporation. Specifically, the Corporation did not:

    a. Use a vulnerability scanning tool that complied with NIST vulnerability standards and supported the Security Content Automation Protocol (SCAP)
    b. Scan desktops and laptops on a monthly basis for missing security patches and/or configuration errors
    c. Periodically perform a scan for configuration errors and deviations from the United States Government Configuration Baseline (USGCB) for desktops
    d. Include performance metrics for the timely remediation of identified vulnerabilities in the new Managed Information Technology Services (MITS) contract.

15. *Inadequate Controls over Remote Access (Repeat Finding from FY 2014 FISMA Evaluation)* – Corporation-issued laptops were configured to automatically connect to the Corporation's network through Cisco's "AnyConnect VPN" client. However, the automatic connection of the laptop to the Virtual Private Network (VPN) server does not meet the two-factor authentication requirements for Federal agencies where "one of the factors is provided by a device separate from the computer gaining access."[3] In addition, the Corporation incorrectly configured its VPN to permit the use of non-compliant, FIPS[4] encryption protocols,[5] leaving VPN sessions vulnerable to exploitation, such as "man-in-the-middle attacks."

Contingency Planning

16. *Lack of Adequate Testing of Continuity of Operations Plan (Repeat Finding from FY 2014 FISMA Evaluation)* – The Corporation has not conducted adequate planning or testing of its Continuity of Operations Plan (COOP). Also, the COOP does not include sufficient information to address all mission-essential functions and subordinate plans and details that would be necessary should the plan ever need to be activated. In addition, the Corporation has made assumptions that do not appear reasonable should it be necessary to activate the COOP.

17. *Inadequate Disaster Recovery Plan Documentation and Planning (Repeat Finding from FY 2014 FISMA Evaluation)* – The Corporation's disaster recovery documentation does not plan for all of the Corporation's essential functions and missions. The BIA specifically states that it is not meant to address all essential business functions and refers to the COOP

[3] OMB Memorandum M-06-16, *Protection of Sensitive Agency Information*, June 23, 2006
[4] FIPS Publication 140-2, *Security Requirements for Cryptographic Modules*
[5] RC4, Secure Socket Layer (SSL) 3.0, and SSL 3.1/TLS 1.0. RC4, SSL 3.0, and Transport Layer Security (TLS) 1.0 are widely used commercially, but they have several technical flaws that can increase the risk of exploitation.

and the Corporation Disaster Recovery Plan (DRP) for coverage. However, the COOP and DRP also did not identify all essential business functions.

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

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

We have audited the consolidated financial statements of the Corporation for National and Community Service (the Corporation) and the Corporation National Service Trust Fund (Trust) as of and for the year ended September 30, 2015, and we have issued our reports thereon dated November 13, 2015. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 15-02, *Audit Requirements for Federal Financial Statements*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Corporation. Providing an opinion on compliance with those provisions was not an objective of our audits; accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings.

The Corporation's Response to Findings

The Corporation's response to the findings identified in our audits is described in a separate letter in Section III of the Agency Financial Report (AFR). The Corporation's response was not subjected to the auditing procedures applied in our audits of the financial statements and accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02 in considering the Corporation's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 13, 2015

Schedule of Findings

Noncompliance and Other Matters

I. Federal Information Security Modernization Act of 2014 (FISMA) (Repeat Condition)

FISMA requires agencies to develop, document, and implement an agency-wide information security program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source.

As noted in its Management Assurance Statement in the FY 2015 Agency Financial Report, the Corporation for National and Community Service (the Corporation) disclosed an instance of noncompliance with FISMA that is required to be reported under *Government Auditing Standards* and the Office of Management and Budget (OMB) Bulletin No. 15-02.

By not complying with FISMA, the Corporation has potentially weakened security controls, which could adversely affect the confidentiality, integrity, and availability of information and information systems.

APPENDIX

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

Corporation for
NATIONAL &
COMMUNITY
SERVICE

Memorandum

Date: November 13, 2015

To: Deborah Jeffrey, Inspector General

From: Jeffrey Page, Acting Chief Financial Officer

Subject: Draft Report on the Corporation for National and Community Service's (CNCS) Fiscal Year 2015 (FY 2015) Financial Statements

Thank you for the opportunity to respond to the draft report on the results of your audit of CNCS's FY 2015 Financial Statements. I am pleased to report that CNCS maintained its unmodified opinion in FY 2015. Additionally, one FY 2014 management letter finding associated with financial reporting was closed, and, we have made progress towards closing two other FY 2014 findings.

While this forward momentum demonstrates our prioritization of fiscal stewardship, CNCS is not without challenges and, as such, recognizes two new management letter findings and the four pre-existing findings for FY 2015. CNCS is committed to addressing these findings, continuously improving our operations, and maintaining high standards for financial management.

Corporation for NATIONAL & COMMUNITY SERVICE

Memorandum

Date: November 13, 2015

To: Deborah Jeffrey, Inspector General

From: Jeffrey Page, Acting Chief Financial Officer

Subject: Draft Report on Internal Controls over Financial Reporting

Thank you for the opportunity to respond to the draft report on the results of your audit of CNCS's Internal Controls over Financial Reporting. CNCS concurs with the conditions and recommendations it contains.

Specifically, CNCS recognizes the repeat of two significant deficiencies in the areas of information technology and financial information management. We commit to making the development and implementation of effective internal controls a central tenant of our day to day operations.

Memorandum

Date: November 13, 2015

To: Deborah Jeffrey, Inspector General

From: Jeffrey Page, Acting Chief Financial Officer

Subject: Draft Report on Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

Thank you for the opportunity to respond to the draft report on Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements. CNCS concurs with the conditions and recommendations reported in the draft report.