Office of Inspector General
Corporation for National and Community Service

AUDIT OF THE
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE'S
FISCAL YEAR 2014 FINANCIAL STATEMENTS

OIG REPORT 15-01

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 14, 2014. 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 June 15, 2015, and complete its corrective actions by November 16, 2015. 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 14, 2014

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 2014 Financial Statements, OIG Report 15-01

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, 2014 and 2013, 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 Management Act of 2002) 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 14, 2014, 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
Jeffrey Page, Chief Operating Officer and Acting Chief Financial Officer
Tom Hanley, Acting Chief Information Officer
Rocco Gaudio, Deputy CFO for Grants and Field Financial Management Center
Douglas Hilton, Director, Office of Accountability and Oversight
David Zavada, Engagement Partner, Kearney & Company, P.C.

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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, 2014 and 2013, 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, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit 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.

KEARNEY& COMPANY

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, 2014 and 2013, and its net cost of operations, 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 these matters.

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.

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 2014, Improper Payments, and Freeze the Footprint sections of the Fiscal Year 2014 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, and accordingly, we do not express an opinion or provide any assurance on it.

Certain information from the Trust Status Report – September 2014 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, 2014, 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 14, 2014.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02, we have also issued a report, dated November 14, 2014, on our consideration of the Corporation's internal control over financial reporting and on our tests of the Corporation's compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters for the year ended September 30, 2014. The purpose of that report 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02, and in considering the Corporation's internal control over financial reporting and compliance.

Kearney & Company

Alexandria, Virginia
November 14, 2014

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

FISCAL YEAR 2014 AND 2013
CONSOLIDATED FINANCIAL STATEMENTS

(Extracted From Fiscal Year 2014 Agency Financial Report)

Corporation for National and Community Service
Consolidated Statements of Financial Position as of September 30 *(dollars in thousands)*

Assets	2014	2013
Fund Balance with Treasury (Note 2)	$ 971,863	$ 914,224
Trust Investments and Related Receivables (Note 3)	717,973	693,165
Advances to Others	58,122	56,000
Accounts Receivable, Net (Note 4)	9,278	9,601
Property and Equipment, Net (Note 5)	2,387	3,346
Total Assets	**$ 1,759,623**	**$ 1,676,336**
Liabilities		
Trust Service Award Liability (Note 6)	$ 454,131	$ 464,274
Grants Payable	95,571	103,125
Accounts Payable	5,103	4,466
Actuarial FECA Liability (Note 8)	9,255	9,702
Advances from Others	24,990	46,121
Accrued Annual Leave	4,244	4,129
Other Liabilities	14,273	12,042
Total Liabilities	**607,567**	**643,859**
Contingencies (Note 14)	—	—
NET POSITION (Note 9)	**$ 1,152,056**	**$ 1,032,477**
Total Liabilities and Net Position	**$ 1,759,623**	**$ 1,676,336**

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 *(dollars in thousands)*

Revenue	2014	2013
Appropriated Capital Used	$ 740,124	$ 808,085
Appropriations Received by the National Service Trust (Note 10)	212,496	223,568
Interest	2,442	3,133
Revenue from Services Provided	44,545	34,816
Other	12,201	17,231
Total Revenue	**$ 1,011,808**	**$ 1,086,833**
Expenses		
AmeriCorps	$ 707,310	$ 778,211
SeniorCorps	219,678	223,235
Learn and Serve America	472	6,048
Innovation, Demonstration and Assistance Activities	42,165	47,355
Office of the Inspector General	3,458	3,392
Total Expenses (Note 11)	**973,083**	**1,058,241**
Net of Revenue Over Expenses	**$ 38,725**	**$ 28,592**
Net Position		
Net of Revenue over Expenses	$ 38,725	$ 28,592
Increase/(Decrease) in Unexpended Appropriations, Net (Note 13)	80,854	(55,318)
Increase/(Decrease) in Net Position, Net	119,579	(26,726)
Net Position, Beginning Balance	1,032,477	1,059,203
Net Position, Ending Balance (Note 9)	**$ 1,152,056**	**$ 1,032,477**

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 *(dollars in thousands)*

CASH FLOWS FROM OPERATING ACTIVITIES	2014	2013
Net of Revenue over Expenses	$ 38,725	$ 28,592
Adjustments Affecting Cash Flow:		
Depreciation, Amortization, and Loss on Disposition of Assets	1,740	801
Amortization of Premium/Discount on Investments	(613)	1,795
Appropriated Capital Used	(740,124)	(808,085)
Appropriations Received in Trust	(212,496)	(223,568)
Appropriations Transferred to Other Federal Agency	(2,000)	-
Decrease/(Increase) in Accounts Receivable	323	(1,118)
Decrease/(Increase) in Interest Receivable	253	136
Decrease/(Increase) in Advances to Others	(2,122)	1,298
Increase/(Decrease) in Accounts Payable and Other Liabilities	2,868	(571)
Increase/(Decrease) in Advances from Others	(21,131)	12,425
Increase/(Decrease) in FECA and Annual Leave Liabilities	(332)	(92)
Increase/(Decrease) in Trust Liability	(10,143)	17,083
Increase/(Decrease) in Grants Payable	(7,554)	2,334
Total Adjustments	(991,331)	(997,562)
Net Cash Provided/(Used) by Operating Activities	**(952,606)**	**(968,970)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of Securities	867,395	729,799
Purchase of Assets	(781)	(2,537)
Purchase of Securities	(891,843)	(786,331)
Net Cash Provided/(Used) in Investing Activities	**(25,229)**	**(59,069)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received, Net of Trust	1,049,954	1,048,884
Rescissions and Cancellations	(14,480)	(72,549)
Net Cash Provided by Financing Activities	**1,035,474**	**976,335**
Net Increase/(Decrease) in Fund Balance with Treasury	**57,639**	**(51,704)**
Fund Balance with Treasury, Beginning	**914,224**	**965,928**
Fund Balance with Treasury, Ending	**$ 971,863**	**$ 914,224**

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 *(dollars in thousands)*

BUDGETARY RESOURCES	2014	2013
Unobligated balance, brought forward, October 1	$ 213,255	$ 205,105
Adjustment to unobligated balance brought forward, Oct 1	-	(5)
Unobligated balance brought forward, Oct 1, as adjusted	213,255	205,100
Recoveries of prior year unpaid obligations	37,405	33,850
Other changes in unobligated balance (+ or -)	(14,480)	(17,692)
Unobligated balance from prior year budget authority, net	236,180	221,258
Budget authority:		
Appropriation Discretionary	1,047,954	1,048,884
Appropriation (special or trust fund)	212,589	223,770
Permanent Reduction – New Budget Authority	-	(54,857)
Appropriation Discretionary (total)	1,260,543	1,217,797
Appropriation Mandatory (special or trust fund)	5,050	1,295
Appropriations (discretionary and mandatory)	1,265,593	1,219,092
Spending authority from offsetting collections:		
Spending Authority from offsetting collections (total)	27,911	52,845
Total budgetary resources	**$ 1,529,684**	**$ 1,493,195**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred		
Obligations incurred (total) (Note 17)	$ 1,324,264	$ 1,279,940
Unobligated balance		
Apportioned	60,614	52,837
Unobligated balance not available	144,806	160,418
Total unobligated balance, end of year	205,420	213,255
Total budgetary resources	**$ 1,529,684**	**$ 1,493,195**

(Continued)

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

Corporation for National and Community Service—Continued
Combined Statements of Budgetary Resources for the Periods Ended September 30 *(dollars in thousands)*

CHANGE IN OBLIGATED BALANCE	2014	2013
Unpaid obligations:		
Unpaid obligations, brought forward, October 1	$ 1,387,779	$ 1,393,997
Obligations incurred	1,324,263	1,279,941
Outlays (gross) (-)	(1,194,220)	(1,252,314)
Recoveries of prior year unpaid obligations, actual	(37,405)	(33,845)
Unpaid Obligations, end of year	**1,480,417**	**1,387,779**
Uncollected Payments:		
Uncollected payments, Federal Sources, brought forward, October 1	(104)	(106)
Change in uncollected customer payments, Federal sources	(27)	2
Uncollected payments, Federal Sources, end of year	**(131)**	**(104)**
Memorandum entries:		
Obligated balance, start of year	**$ 1,387,675**	**$ 1,393,891**
Obligated balance, end of year	**$ 1,480,286**	**$ 1,387,675**

BUDGET AUTHORITY AND OUTLAYS, NET	2014	2013
Budget authority, gross (discretionary and mandatory)	$ 1,293,504	$ 1,271,937
Actual offsetting collections	(27,884)	(52,847)
Change in uncollected customer payments from federal sources	(27)	2
Budget authority, net (discretionary and mandatory)	**$ 1,265,593**	**$ 1,219,092**
Outlay, gross (discretionary and mandatory)	1,194,220	1,252,314
Actual offsetting collections	(27,884)	(52,847)
Outlays, net (discretionary and mandatory)	**1,166,336**	**1,199,467**
Distributed offsetting receipts	(214,188)	(224,088)
Agency Outlays, net (discretionary and mandatory)	**$ 952,148**	**$ 975,379**

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 2014 from the following funds:

Trust and Gift Funds:

- National Service Trust (the 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 the 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 of the Recovery Act.
- Salaries and Expenses, Recovery Act, which funded CNCS's expenses to improve 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 Corporation assets, liabilities, and net position;
- Statement of Operations and Changes in Net Position, which reports CNCS's revenues and expenses for the year and the changes in net position that occurred during the year; and
- Statement of Cash Flows, which shows how changes in CNCS's financial position and results affected its cash (Fund Balance with Treasury), and present the analysis of operating, investing, and

financing activities.

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

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

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

D. BUDGETS AND BUDGETARY ACCOUNTING

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

E. ASSET AND LIABILITY VALUATION

CNCS values its investments at carrying value and discloses fair value. As of September 30, 2014, the carrying amounts of Fund Balance with Treasury, 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 (the Treasury). The Treasury processes cash receipts and disbursements on behalf of CNCS and CNCS's accounting records are reconciled with those of the Treasury on a regular basis. CNCS's FBWT includes all of its appropriated 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. 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.

H. CASH EQUIVALENTS

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

I. 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.

J. 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.

K. 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 10 years.

L. 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.

M. 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.

N. 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.

O. 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 employees and members under FECA are determined and paid by the Department of Labor (DOL) and later billed to CNCS. CNCS's actuarial liability for workers' compensation includes costs incurred, but unbilled as of year-end, as calculated by DOL. CNCS reimburses DOL for FECA claims out of current appropriations upon receipt of a bill from DOL.

P. 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, and imputed costs for future retirement and health care benefits as determined by an Office of Personnel Management calculation.

Q. 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.

R. 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.

S. 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.

T. 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 cancelled. Unpaid obligations recorded against cancelled appropriated capital are paid from currently available appropriated funds as payments become due. Appropriations received for CNCS's Trust are recognized as revenue when received in the Trust Fund. Trust appropriations do not expire with the passage of time and are retained by CNCS in the Trust until used for eligible education service award purposes.

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 the Treasury to the credit of the Gifts and Contributions Fund.

U. RETIREMENT BENEFITS

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

For employees covered by CSRS, CNCS contributes 7.0 percent of their basic pay. For those employees covered by FERS, CNCS contributes 11.2 percent of their gross pay towards retirement. Employees are allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, CNCS contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional 4 percent of pay, for a maximum CNCS contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but will not receive either CNCS's automatic or matching contributions.

V. 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.

W. 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.

X. Comparative Data

CNCS financial statements provide comparative information for FY 2014 and 2013.

Y. CONCENTRATION OF RISKS

Congress annually considers whether to fund CNCS's program and operational activities. Should Congress opt not to enact appropriations to fund them, CNCS would be unable to continue operations. CNCS 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 U.S. Department of 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, 2014 *(dollars in thousands)*

Type	Unrestricted	Restricted	Total
Appropriated Funds	$ 964,761	$ -	$ 964,761
Trust Funds	-	6,606	6,606
Gift Funds	-	496	496
Total	**$ 964,761**	**$ 7,102**	**$ 971,863**

Fund Balance with Treasury as of September 30, 2013 *(dollars in thousands)*

Type	Unrestricted	Restricted	Total
Appropriated Funds	$ 912,962	$ -	$ 912,962
Trust Funds	-	611	611
Gift Funds	-	651	651
Total	**$ 912,962**	**$ 1,262**	**$ 914,224**

NOTE 2—Fund Balance with Treasury—Continued

Unexpended Balances as of September 30, 2014 *(dollars in thousands)*

Type	Unrestricted	Restricted	Total
FBWT	$ 964,761	$ 7,102	$ 971,863
Investments and Related Receivables	-	717,973	717,973
Total	**$ 964,761**	**$ 725,075**	**$1,689,836**

Status of Unexpended Balances as of September 30, 2014 *(dollars in thousands)*

Type	Unrestricted	Restricted	Total
Unobligated:			
Available	$ 107,940	$ 50,940	$ 158,880
Unavailable	-	50,670	50,670
Obligated not yet Disbursed	856,821	623,465	1,480,286
Total	**$ 964,761**	**$ 725,075**	**$1,689,836**

Unexpended Balances as of September 30, 2013 *(dollars in thousands)*

Type	Unrestricted	Restricted	Total
FBWT	$ 912,962	$ 1,262	$ 914,224
Investments and Related Receivables	-	693,165	693,165
Total	**$ 912,962**	**$ 694,427**	**$1,607,389**

Status of Unexpended Balances as of September 30, 2013 *(dollars in thousands)*

Type	Unrestricted	Restricted	Total
Unobligated:			
Available	$ 117,527	$ 51,990	$ 169,517
Unavailable	-	50,197	50,197
Obligated not yet Disbursed	795,435	592,240	1,387,675
Total	**$ 912,962**	**$ 694,427**	**$1,607,389**

NOTE 3—National Service Trust Investments and Related Receivables

The composition of National Service Trust Investments and Related receivables at September 30 is as follows:

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

	2014	2013
Investments, Carrying Value	$ 717,304	$ 692,243
Interest Receivable	669	922
Total	**$ 717,973**	**$ 693,165**

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**

Amortized Cost and Fair Value of Investment Securities as of September 30, 2013 *(dollars in thousands)*

Securities	Amortized Cost	Unrealized Gains/(Losses)	Fair Value
Notes	$ 512,220	$ 1,560	$ 513,780
Bills	180,023	11	180,034
Total	**$ 692,243**	**$ 1,571**	**$ 693,814**

At September 30, 2014, the notes held at year-end had an interest rate range of 0.125 percent to 4.25 percent and an outstanding maturity period of approximately seven days to three years. The bills held at year-end had an interest rate range of 0.250 percent to 0.625 percent. The par values of these notes range from $18 million to $148.3 million. The fair value of the bills and notes is based on bid and ask prices quoted by the Treasury as of September 30, 2014 and 2013.

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, 2014, $50.2 million of CNCS's investment account has been set aside for this reserve.

NOTE 3—Trust Investments and Related Receivables—Continued

Investments held at September 30 mature according to the following schedule:

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

	2014		2013	
Held-to-Maturity Securities	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 537,761	$ 538,417	$ 441,185	$ 441,710
Due after 1 year up to 5 years	179,543	179,520	251,058	252,104
Total	**$ 717,304**	**$ 717,937**	**$ 692,243**	**$ 693,814**

NOTE 4 – Accounts Receivables, Net

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

	Appropriated Funds	Trust Fund	Total
2014			
Accounts receivable	$ 9,875	$ 274	$ 10,149
Less: allowance for loss on receivables	(826)	(45)	(871)
Accounts Receivable, Net	**$ 9,049**	**$ 229**	**$ 9,278**
2013			
Accounts receivable	$ 9,962	$ 281	$ 10,243
Less: allowance for loss on receivables	(595)	(47)	(642)
Accounts Receivable, Net	**$ 9,367**	**$ 234**	**$ 9,601**

NOTE 5—Property and Equipment, Net

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	2	12,764	(10,696)	2,068
Total		**$ 15,350**	**$ (12,963)**	**$ 2,387**

NOTE 5—Property and Equipment, Net—Continued

General Property and Equipment as of September 30, 2013 *(dollars in thousands)*

Major Class	Service Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 - 10	$ 2,586	$ (2,065)	$ 521
ADP software	2	11,983	(9,158)	2,825
Total		**$ 14,569**	**$ (11,223)**	**$ 3,346**

Depreciation Expense for the period ending September 30 *(dollars in thousands)*

Major Class	2014	2013
Equipment	$ 202	$ 202
ADP software	1,538	599
Total	**$ 1,740**	**$ 801**

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 ten 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 has 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)*

	2014	2013
Education awards	$ 2,469,053	$ 2,301,708
Interest forbearance	89,677	79,604
President's Freedom Scholarship Program	22,527	22,527
Total estimated service award liability	2,581,257	2,403,839
Less: cumulative awards paid	2,127,126	1,939,565
Total	**$ 454,131**	**$ 464,274**

The net Service Award Liability as of September 30, 2014 decreased by approximately $10.1 million from the net Service Award Liability as of September 30, 2013. This change was largely due to declining member enrollment, and accelerated usage of awards. Past CNCS appropriations made amounts from the National Service Trust available for $1,000 scholarships for high school students known as Presidential Freedom Scholarships. To fund each scholarship, a local community or corporate source matched the $500 portion of the scholarship provided by CNCS. The program was discontinued in FY 2007; however, because students have up to seven years to use the scholarship, some payments will continue to be made through FY 2014. As of October 1, 2009, the National Service Trust is also available to pay Summer of Service and Silver Scholar educational 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 and other 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-cancellable lease terms in excess of one year as of September 30.

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

	2014				2013			
Fiscal Year	Facilities Space	Vehicles	Other	Total	Facilities Space	Vehicles	Other	Total
2014	$ -	$ -	$ -	$ -	$ 10,059	$ 953	$ 354	$ 11,366
2015	10,414	298	540	11,252	10,115	873	303	11,291
2016	10,381	309	522	11,212	10,401	874	287	11,562
2017	10,702	322	531	11,555	10,696	733	287	11,716
2018	11,033	335	532	11,900	11,000	750	287	12,037
2019	11,374	348	541	12,263	-	-	-	-
Total	**$ 53,904**	**$ 1,612**	**$ 2,666**	**$ 58,182**	**$ 52,271**	**$ 4,183**	**$ 1,518**	**$ 57,972**

NOTE 8—Actuarial FECA Liability

CNCS's actuarial liability for future workers' compensation benefits under FECA was $9.3 and $9.7 million as of September 30, 2014 and 2013, 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 the Department of Labor. 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 economic assumptions for ten-year Treasury notes and bonds.

NOTE 9—Net Positions

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

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

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

Net Position by Fund Balance Component as of September 30, 2013 *(dollars in thousands)*

	Gift Funds	Trust Funds	Appropriated Funds	Total
Unexpended appropriations	$ -	$ -	$ 809,513	$ 809,513
Cumulative results of operations	644	229,736	(7,416)	222,964
Total Net Position	**$ 644**	**$ 229,736**	**$ 802,097**	**$ 1,032,477**

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 CNCS's unrestricted and temporarily restricted net assets.

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**

Restrictions on Net Position as of September 30, 2013 *(dollars in thousands)*

	Unrestricted	Temporarily Restricted	Total
Appropriated Funds	$ 802,097	$ -	$ 802,097
Trust Funds	-	229,736	229,736
Gift Funds	-	644	644
Total Net Position	**$ 802,097**	**$ 230,380**	**$ 1,032,477**

NOTE 10—Appropriations Received by the National Service Trust

The National Service Trust received $207.4 million for FY 2014, and $200.7 million for FY 2013. 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 $5.1 million and $22.8 million to the Trust in FY 2014 and 2013, respectively.

NOTE 11—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 the State, National, Tribes, and Territories (State/National); National Civilian Community Corps (NCCC); and Volunteers In Service To America (VISTA) programs. The State/National sub-program includes grant expenses, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and National Service Trust operations. The NCCC sub-program includes member stipend and benefits, and direct and allocated personnel and administrative costs, including AmeriCorps recruitment and National Service Trust operations. The AmeriCorps 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.

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 RSVP.

The Senior Corps program includes 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 is no longer funded; however, there was on-going activity through FY 2014 as the program shut 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, and 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 sources 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, and Assistance Activities component.

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

NOTE 11—Expenses—Continued

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

	2014	2013
Domestic Volunteer Service Act Programs	$ 223,680	$ 226,790
National and Community Service Act Programs	344,812	395,955
Total Grant Funds Expended	**$ 568,492**	**$ 622,745**

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

	2014		2013	
AmeriCorps				
State and National	$ 535,574		$ 595,844	
NCCC	39,698		48,216	
VISTA	132,038		134,151	
Subtotal		$ 707,310		$ 778,211
Senior Corps				
RSVP	54,994		53,115	
Foster Grandparent Program	116,428		119,391	
Senior Companion Program	$ 48,256		$ 50,729	
Subtotal		219,678		223,235
Learn and Serve America		472		6,048
Innovation, Demonstration, Assistance Activities		42,165		47,355
Office of Inspector General (OIG)		3,458		3,392
Total Expenses		**$ 973,083**		**$ 1,058,241**

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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Expenses by Type and Sub-Program for the Period Ended September 30, 2013 *(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	$ 344,389	$ -	$ 31,893	$ 45,576	$ 105,085	$ 44,236	$ 5,057	$ 46,509	$ -	$ 622,745
VISTA and NCCC stipends and benefits	-	8,896	54,961	-	-	-	-	-	-	63,857
Service award expense	171,188	8,484	19,896	-	-	-	-	-	-	199,568
Total Grant and Related Expense	**515,577**	**17,380**	**106,750**	**45,576**	**105,085**	**44,236**	**5,057**	**46,509**	**-**	**886,170**
Administrative Expense										
Federal employee salaries and benefits	40,355	4,752	7,226	3,286	7,735	3,280	490	-	2,429	69,553
Travel and transportation	2,449	5,107	1,559	261	603	261	30	-	72	10,342
Rent, communications, and utilities	5,563	3,922	884	450	1,060	449	67	-	12	12,407
Program analysis and evaluation	1,720	63	308	139	328	139	24	-	-	2,721
Printing and reproduction	126	84	23	22	23	15	1	-	-	294
Other services and expenses	29,032	14,703	17,194	3,300	4,365	2,268	363	846	866	72,937
Supplies and materials	444	2,194	117	34	81	34	9	-	13	2,926
Depreciation, amortization, and loss on disposition of assets	520	10	81	42	100	42	6	-	-	801
Bad debt	58	1	9	5	11	5	1	-	-	90
Total Administrative Expense	**80,267**	**30,836**	**27,401**	**7,539**	**14,306**	**6,493**	**991**	**846**	**3,392**	**172,071**
Total Expenses by Type	**$ 595,844**	**$ 48,216**	**$ 134,151**	**$ 53,115**	**$ 119,391**	**$ 50,729**	**$ 6,048**	**$ 47,355**	**$ 3,392**	**$ 1,058,241**

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NOTE 12—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, 2014 and 2013, 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)*

	2014	2013
Estimated education awards	$ 167,334	$ 190,594
Estimated interest forbearance	10,073	8,974
National Service Award Expense	**$ 177,407**	**$ 199,568**

NOTE 13—Change in Unexpended Appropriations, Net

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

	2014	2013
Unexpended Appropriations, Beginning Balance	$ 809,513	$ 864,831
Increases:		
Appropriations Received	1,049,954	1,048,884
Decreases:		
Appropriated Capital Used	(740,124)	(808,085)
Appropriations Transferred to Trust Fund (net of rescissions)	(207,387)	(200,719)
Program Funds Transferred to Trust	(5,109)	(22,849)
Appropriations Transferred to Other Federal Agency	(2,000)	–
Rescissions and Cancellations	(14, 480)	(72,549)
Total Decreases	(969,100)	(1,104,202)
Change in Unexpended Appropriations	80,854	(55,318)
Unexpended Appropriations, Ending Balance	**$ 890,367**	**$ 809,513**

NOTE 14—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' 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' financial statements.

NOTE 15—Subsequent Events

CNCS has evaluated subsequent events through November 14, 2014, 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 16—Undelivered Orders at Fiscal Year-End

CNCS' undelivered orders at September 30, 2014 and 2013 were $979.9 million and $869.5 million, respectively.

NOTE 17—Apportionment Categories of Incurred Obligations

An apportionment is a distribution by OMB of amounts available for obligation. OMB apportions Corporation funds on both a quarterly and annual basis. Obligations incurred during FY 2014 and 2013 were:

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

Fiscal Year	Direct	Reimbursable	Total
2014	$ 1,275,003	$ 49,261	$ 1,324,264
2013	$ 1,226,901	$ 53,039	$ 1,279,940

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE WITH APPLICABLE PROVISIONS OF 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, 2014, and have issued our reports thereon dated November 14, 2014. 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. 14-02, *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 that 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. 14-02. 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that 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 did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Reponses, 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.

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 certain provisions of laws, regulations, contracts, and grant agreements. Noncompliance could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards,* and is described in the accompanying Schedule of Findings and Responses.

Corporation's Response to Findings

The Corporation's response to the findings identified in our audits is described in a separate letter. 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 internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02 in considering the Corporation's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 14, 2014

Schedule of Findings and Responses

Significant Deficiencies

I. Information Technology (New Condition)

The Corporation's information technology (IT) internal control structure, both for the general support systems (GSS) and significant financial reporting applications, did not support a sound internal control environment in all five categories of general controls, which include the following areas: security management, access controls, configuration management, segregation of duties, and contingency planning. The National Institute of Standards and Technology (NIST) and the Government Accountability Office's (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 Management Act of 2002 (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 agency's systems. Kearney performed the annual FISMA evaluation of the Corporation's information security and privacy program for fiscal year (FY) 2014 on behalf of the OIG and prepared responses to 115 FISMA security metric questions. Of the 115 security metric questions, our testing identified 49 instances of noncompliance with OMB guidance and NIST guidance. These 49 control deficiencies were consolidated into 16 reported findings within the FY 2014 FISMA report, dated November 14, 2014.

Collectively, these control deficiencies in the Corporation's information security and privacy program increase the risk of fraud, waste, and abuse and 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, 2014. Overall, the Corporation needs to take substantial corrective action to address IT deficiencies identified in the FY 2014 FISMA report. Management has reported these significant deficiencies as a material weakness under FMFIA, consistent with the FISMA legislation and OMB reporting guidance.

The list of 16 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 from FY 2013 FISMA Evaluation)* – The Corporation has not adopted, formally documented, or implemented an organization-wide ISCM strategy and program, as mandated by the OMB guidance and as required by several NIST Special Publications (SP), including NIST SP 800-137; NIST SP 800-37 Revision 1, NIST SP 800-39, and NIST SP 800-53 Revision 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* – NIST SP 800-53 Revision 4 requires that security assessors be independent and impartial when performing security assessments for Federal Information Processing Standard (FIPS) 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.

3. *Inadequate enterprise-wide risk management policies and practices (Repeat finding from FY 2013 FISMA Evaluation)* – The Corporation's documented risk management policies and security controls describe the risk management process at the information system (Tier 3) level but do 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.

4. *Weaknesses with the Corporation's security planning and assessment* – The Corporation did not develop corporate 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 from FY2013 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* – The Corporation did not have an adequate POA&M management process in place to ensure all known enterprise security weaknesses are recorded, remediation resources are specifically and uniformly identified, and progress toward timely resolution is adequately monitored.

7. *Inadequate controls over privacy* – 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 incident response reporting* – The Corporation has not properly classified all computer security incidents, nor has it reported all computer security incidents to the United States-Computer Emergency Readiness Team (US-CERT), as required by OMB and US-CERT computer security reporting guidance. Specifically, three Category 1 events and three Category 4 events[1] were not reported because they were not correctly classified as reportable events.

Access Controls

1. *Use of an obsolete and unsupported network monitoring tool* – The Corporation's primary tool for network access control, monitoring, and audit log analysis was obsolete and unsupported by the vendor.

2. *Lack of controls to prevent use of unauthorized devices* – The Corporation did not implement IT security policies and supporting technical controls to prevent the use of non-Corporation-issued portable data storage devices such as Universal Serial Bus (USB) thumb drives, USB hard drives, smart phones, and tablets. Further, Kearney observed Corporation employees utilizing personal devices for work purposes even though the Corporation did not have a bring-your-own-device policy that permitted such behavior. Without clear, enforced IT security policies regarding the use of personal devices for corporate use, Corporation employees and contractors may connect personal USB storage devices to Corporation computers and unknowingly introduce malicious software or potentially store sensitive information on an unencrypted device.

[1] Category 1 events represent unauthorized access and must be reported within one hour of discovery. Unauthorized access occurs when an individual gains logical or physical access without permission to a Federal agency network, system, application, data, or other resource. Category 4 events represent improper usage and must be reported weekly. Improper usage occurs when a person violates acceptable computing use policies.

3. *Risks to the confidentiality and availability of voice communications* – The Corporation does not separate its data network traffic from its voice network traffic. Specifically, 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. Connecting the data network with the voice network exposes the VoIP infrastructure to multiple attack vectors and security weaknesses, which could allow a hacker to intercept and record phone calls without the knowledge of the caller, or worse, create a denial-of-service condition.

Configuration Management

1. *Multiple weaknesses with vulnerability scanning and remediation* – Kearney identified five deficiencies related to vulnerability scanning and the remediation process at the Corporation. Specifically, the Corporation did not:
   a. Scan desktops and laptops on a monthly basis for missing security patches and/or configuration errors
   b. Review monthly scan results of servers for 10 months. This allowed 39 high-risk vulnerabilities on several critical servers to continue for this period
   c. Configure the vulnerability scanner to identify missing security patches belonging to frequently exploited applications such as Internet Explorer, Microsoft Office, Adobe Reader, Adobe Flash, and Java
   d. Periodically perform a scan for configuration errors and deviations from the United States Government Configuration Baseline for desktops
   e. Include performance metrics for the timely remediation of identified vulnerabilities in the MDCS or other IT contracts.

2. *Inadequate controls over remote access* – The 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."[2] In addition, the Corporation incorrectly configured its VPN to permit the use of non-compliant, FIPS[3] encryption protocols,[4] leaving VPN sessions vulnerable to exploitation, such as "man-in-the-middle attacks." Kearney also noted that the Corporation's VPN client did not include the latest Cisco security patches as of August 25, 2014 to several Secure Socket Layer (SSL)/Transport Layer Security (TLS) vulnerabilities.

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[2] OMB Memorandum M-06-16, *Protection of Sensitive Agency Information*, June 23, 2006
[3] FIPS Publication 140-2, *Security Requirements for Cryptographic Modules*
[4] 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 have several technical flaws that can increase the risk of exploitation.

Segregation of Duties

1. *Lack of segregation of duties* – The Corporation did not document requirements for segregation of duties for the eSPAN application. This issue has been recurring for the past four years. Despite repeated assurances that the Corporation is in the process of establishing required segregation of duties across all business processes and aligning this with its IT systems, the Corporation has not demonstrated meaningful progress to resolve the weakness.

Contingency Planning

1. *Lack of adequate testing of Continuity of Operations Programs (COOP)* – The Corporation has not conducted adequate planning or testing of its COOP.

2. *Inadequate Disaster Recovery Plan (DRP) documentation and planning* – The Corporation's disaster recovery documentation does not plan for all of the Corporation's essential functions and missions. The Business Impact Analysis specifically states that it is not meant to address all essential business functions, and refers to the COOP and the Corporation DRP for coverage. However, the COOP and DRP also did not identify all essential business functions.

II. Integrity Assurance Program (New Condition)

The Corporation is subject to the reporting requirements of the Government Corporation Control Act and is therefore subject to FMFIA; OMB Circular A-123, *Management's Responsibility for Internal Control*; and the GAO's Standards for Internal Control in the Federal Government, 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.

In FY 2013, the Corporation established the Financial Integrity Steering Committee (FISC), a governance and oversight structure for internal control, which conducted a risk assessment and tested financial controls in 13 cycles. During this past year, the Corporation issued the Integrity Assurance Program (IAP) policies and procedures, formed the Integrity Steering Committee (ISC), and updated its initial risk assessment. However, the IAP also experienced a number of setbacks and delays that have offset this progress and severely restricted the effectiveness of the current program. Kearney has reported the lack of an effective internal control monitoring program in each of the past five years when we have performed the financial statement audit of the Corporation.

Agency management is responsible for implementing effective internal controls and must certify their effectiveness annually in an assurance statement included in the Agency Financial Report.

However, the Corporation has not adopted a comprehensive and timely assessment process with effective governance and management follow-up, resulting in assurance statements that are not fully supported. Deficiencies in internal control design and operation can and did go undetected. For example, during this past year, deficiencies in information security were identified through our integrated FISMA evaluation and financial statement audit that were not detected by management's Internal Control or Information Assurance program. In the area of procurement, an audit conducted by the OIG during FY 2014 found numerous weaknesses related to the Corporation's contract management process and controls; the Corporation has acknowledged the broad scope of the issues involved in this area. Both information security and contract management are areas widely recognized throughout the Government to carry high risk; therefore, they require diligent monitoring of the effectiveness of internal controls. 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 FISC Discontinued Monthly Meetings in June and the ISC did not Meet Quarterly

The initial meeting of the ISC, a governance body established in FY 2014 to function as a Senior Assessment Team in carrying out internal control monitoring, was not held until the third quarter of the FY on June 12, 2014. The ISC did not convene again. The FISC, a governance and oversight structure for internal control established in FY 2013, met monthly through June 2014, but did not meet again for the remainder of the FY. The absence of a fully engaged and functioning internal control oversight body means that corrective action plans (CAP), resource constraints, key vacancies, test plans, and results are not monitored at the appropriate senior level within the Corporation.

Insufficient Resources Dedicated to Internal Control Monitoring

During FY 2014, the Office of Accountability and Oversight (OAO)[5] did not have sufficient, properly trained personnel to complete the internal control assessment in a comprehensive and timely manner. Since FY 2013, the OAO has had one vacant position, and during FY 2014, the staffing levels dedicated to Internal Control and Analysis within the OAO decreased.

The OAO also does not have personnel with the IT skills to perform an assessment of information systems controls. Without the skill set and experience of an IT specialist, or access to this skill set within the Corporation, IT testing was inadequate. Kearney's detailed sampling of IT controls highlighted that documented IT procedures and practices were not consistently followed and operational security gaps existed.

[5] The OAO is an office that was established by the Corporation in FY 2012 and is responsible for establishing program objectives, defining policy, overseeing risk/control assessment, submitting results to FISC for FMFIA decision-making, and performing subsequent remediation activities.

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Undetected Significant Deficiencies Related to Information Security and Compliance

As noted above, internal controls over information security are separately identified as part of the financial statement audit as a significant deficiency. The information security and privacy program at the Corporation did not meet minimum security standards established by FISMA, OMB, and NIST, and needs substantial improvement across the board. These information security deficiencies and areas of noncompliance with Federal information systems requirements were not detected as part of the Corporation's internal control monitoring program.

An Incomplete Risk Assessment Process

The OAO's risk assessment process remains incomplete and needs to be more comprehensive in identifying the range of risks faced by the Corporation. For example, factors such as a changed regulatory or operating environment, new personnel, turnover of key personnel, new or revamped information systems, and new technology all represent risks that should be considered during the Corporation's risk assessment process. Further, the GAO's Standards for Internal Control in the Federal Government also require a detailed fraud risk assessment, and that responses to those risks be performed and incorporated into the risk assessment process.

Internal Control Assessment was not Completed Timely

The OAO did not complete its internal control assessment in a timely manner. As of the end of the FY 2014, the Corporation had not completed its testing for any of the areas selected, and grants management assessment was not completed until October 24, 2014. An effective and fully functioning internal control monitoring program should complete and report the results of internal control testing during the FY. The delay in the Corporation's internal control testing provided very little time to assess and consider the results with the ISC, FISC, Chief Executive Officer, and Board of Directors before decisions regarding management's annual assurance statement need to be made.

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Noncompliance and Other Matters

III. Federal Information Security Management Act of 2002 (FISMA) (New 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 2014 Agency Financial Report, the Corporation disclosed an instance of noncompliance with FISMA that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 14-02.

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.

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APPENDIX

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

Corporation for
NATIONAL &
COMMUNITY
SERVICE

Memorandum

Date: November 14, 2014

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 2014 (FY 2014) Financial Statements

Thank you for the opportunity to respond to the draft report on the results of your audit of CNCS' FY 2014 Financial Statements. I am pleased that we can report that CNCS maintained its unmodified opinion in FY 2014 and that the four management letter findings associated with financial reporting included in the FY 2013 report were closed.

While these accomplishment demonstrate our commitment to continuous improvement, we recognize the need to address ongoing challenges. We are committed to implementing a sound governance and oversight framework to maximize the agency's fiscal stewardship. This reflects CNCS' commitment to continuously improving our operations and maintaining high standards for financial management.

Corporation for
NATIONAL & COMMUNITY SERVICE

Memorandum

Date: November 14, 2014

To: Deborah Jeffrey, Inspector General

From: Jeffrey Page, Acting Chief Financial Officer

Subject: Draft Report on Internal Controls over Financial Reporting and Compliance and Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

Thank you for the opportunity to respond to the draft report on Internal Controls. CNCS concurs with the conditions and recommendations reported in the draft report.

CNCS is committed to establishing a sound governance and oversight framework for effective internal control and Enterprise Risk Management programs necessary to take CNCS's overall risk assessment and internal controls functions to the next level. CNCS is also committed to maintaining a strong and effective Information Assurance Program and protecting sensitive information in our systems. We are dedicated to fulfilling our responsibility to national service participants, grantees, and other stakeholders.