CORPORATION FOR NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

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

OIG Report 18-01

Prepared by:

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

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

OFFICE OF INSPECTOR GENERAL

CORPORATION FOR
NATIONAL & COMMUNITY SERVICE

November 15, 2017

TO: Kim Mansaray
Acting Chief Executive Officer

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

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

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

- CNCS was unable to provide adequate evidential matter to support a significant number of transactions and account balances due to inadequate processes and controls to support transactions and estimates, and incomplete records to support accounting for transactions in accordance with generally accepted accounting principles. CLA has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion (disclaimer);
- Four material weaknesses (Financial Reporting; Trust Fund Unpaid Obligations; Trust Service Award Liability Model; and Grant Advances and Accrual) and one significant deficiency (Information Technology Security Controls) in CNCS's internal control over financial reporting; and
- No instances of noncompliance with applicable provisions of laws, regulations, contracts, and grant agreements.

Had the scope of CLA's work been sufficient to enable CLA to express an opinion on the CNCS consolidated financial statements, other material weaknesses or significant deficiencies, or noncompliance or other matters may have been identified and reported.

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

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

Attachment

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Basis for Disclaimer of Opinion

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

Disclaimer of Opinion

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

Other Matters

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

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

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

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

Internal Control over Financial Reporting

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

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

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

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

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

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

5. Information Technology Security Controls

Had the scope of our work been sufficient to enable us to express an opinion on the financial statements, other material weaknesses or significant deficiencies may have been identified and reported herein.

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

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

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

Management's Responsibility for Internal Control and Compliance

CNCS management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the *Federal Managers' Financial Integrity Act* (FMFIA) and GAO's *Standards for Internal Control in the Federal Government*, (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

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

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

CNCS's Response to Findings

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

Status of Prior Year's Control Deficiencies

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

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

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

CliftonLarsonAllen LLP

CLIFTONLARSONALLEN LLP
Arlington, Virginia
November 8, 2017

EXHIBIT A
Material Weaknesses

1. **Financial Reporting:** As part of our testing of the Corporation for National and Community Service's (CNCS or the Corporation) financial reporting process, we noted the following three conditions**:**

   A. The financial statements were not prepared and presented in accordance with Federal standards;
   B. Internal control deficiencies in the financial accounting and reporting process
   C. Non-compliance with OMB Circular A-11, *Preparation, Submission, and Execution of Budget,* on the use of object classification (object class) to record transactions.

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

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

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

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

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

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

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

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

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

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

We recommend that:

1. The AFMS team prepares complete sets of financial statements and related notes for CNCS and the National Service Trust Fund at the interim periods.

2. CNCS evaluate and decide on the accounting standards to be followed in preparing the CNCS financial statements. Management should reassess the initial basis for using FASB and document its decision to continue to use FASB or transition to full FASAB reporting.

3. Notwithstanding the standards management elects to apply, the information presented in the Statement of Budgetary Resources (SBR) and notes should be in accordance with OMB Circular A-136 guidance. For instance, the attribute for Federal or Non Federal transactions should be recorded to support the "Uncollected Payments, Federal Sources."

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

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

- CNCS's financial statements were prepared in Excel spreadsheets with embedded formulas. The Excel spreadsheets were inherently susceptible to manipulation and human error as the cells in those spreadsheets were not protected.

- Although AFMS performs an analysis of the trial balance, it does not document any explanation for known and recurring differences in the analysis, such as reversal of standard voucher (SV) transactions, leading to unexplained and abnormal balances. Moreover, some differences marked for research by management were either not performed or their resolution was not documented. Nevertheless, the trial balance analysis was approved by the AFMS supervisor. These exceptions were evidence of ineffective implementation of controls to prevent and detect financial statements errors.

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

CNCS did not perform the necessary research to determine the validity of the legacy balances in the "TJ" (used to report Trust Fund commitments and obligations) and "JV" (journal voucher) document types to determine if they represent valid undelivered orders as of June 30, 2017. TJ and JV document types have not been used since FY 2007 and FY 2011, respectively. Our review of the June 30, 2017 unliquidated order report identified the following:

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

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

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

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

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

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

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

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

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

The Director of AFMS and the Lead Accountant of the Accounting and Reports division are the only two CNCS staff with authority to approve SVs in Momentum. CLA noted that the Lead Accountant can both prepare and approve the same SV, precluding any effective supervisory review or control. Effective segregation of duties is required to prevent overrides of financial reporting controls. In addition, the Momentum user log only shows the approvers of the SVs. As a result, management cannot readily assess if proper segregation of duties was exercised during processing of the SV transactions. Management's review process to ensure proper segregation of duties was not documented nor performed consistently over all SVs.

We recommend that:

4. The financial statement preparation process be automated to the greatest extent possible to reduce the potential for human error in the financial statement template. The Corporation should review and protect the formulas used in the Excel spreadsheet to ensure accuracy and prevent inadvertent or intentional manipulations. Access to the Excel spreadsheets should be limited to key personnel in AFMS.

5. AFMS develop detailed policies and procedures to reflect the financial statement preparation process. The policies and procedures developed should address the key processes and controls such as preparation of a quarterly fluctuation analysis, preparing and approving SVs; preparation and approval of the quarterly financial statements; and review of the trial balance. The procedures should clearly delineate responsibilities for the various AFMS groups and team leads.

6. Management review and research discontinued document types such as TJs and JVs to determine whether unliquidated order balances are still valid. Furthermore, management should work with the system support team to remove any document types that are no longer used.

7. Management update the Financial Reporting Cost Allocation process memorandum to explain the methodology by which it allocates indirect costs among the various CNCS programs.

8. Management work with Momentum's developer to identify and remediate the causes that give rise to the recurring needs for SV's and user functionality issues that may be causing errors that can be addressed through training.

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

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

We recommend that:

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

EXHIBIT A (Continued)
Material Weaknesses

2. Trust Fund Unpaid Obligations

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

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

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

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

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

We recommend that CNCS management:

10. Document the authority that allows for the automatic obligation of interest and its compliance with the budget execution guidance in OMB Circular A-11, or modify its practices with respect to the treatment of interest revenue.

11. Implement policies and procedures to address the following:
    - a) review obligation amounts to ensure amounts accurately reflect the status of the obligation;
    - b) review the time frame for the obligation recorded in Momentum to be considered as valid (i.e., grant dates are correctly reflected in the obligation);
    - c) ensure obligations are sufficiently supported (i.e., by documentary evidence) to ensure proper accounting;
    - d) reconcile obligations to source documents (such as grant agreements);
    - e) ensure aged obligations are valid and accurately recorded; and
    - f) perform complete reconciliations of all outstanding obligations monthly, and ensure any discrepancies identified are promptly researched and resolved.

12. Perform a documented assessment to validate the transactions currently included in the unpaid obligations balance. Ensure those obligations are related to valid claims and supported by documentary evidence.

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

3. Trust Service Award Liability (TSAL)

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

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

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

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

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

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

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

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

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

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

We recommend that CNCS Management:

14. Implement the consulting firm's recommendation to correct the erroneous member record types in the Raw Data Section 2, from PT to HT.

15. Develop or update the TSAL model documentation, document modelling assumptions, SOPs, and business process narratives relevant to the Trust Fund's accounting and financial reporting of education awards.

16. Protect cells within the TSAL model (Excel spreadsheet).

17. Conduct a detailed study to determine the historical awards granted to members by duration and by program year, and use the results of that study to adjust the calculation of the Education Awards Earning Percentage.

18. Assess the need and document management's position regarding the discounting factors for the TSAL in accordance with applicable FASAB standards.

19. Cross-train staff and develop a succession plan to ensure the required expertise is available in the event of employee turnover.

4. Grants Accrual Payable and Advances

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

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

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

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

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

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

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

We recommend that CNCS management:

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

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

22. Coordinate with the program and grant officers to gather and analyze its key grant programs' (AmeriCorps State and National and Senior Corps) historical data and the grantees' spending patterns to develop the following key factors:

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

EXHIBIT B
Significant Deficiency

1. CNCS Needs to Mitigate Information Technology Control Deficiencies.

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

To balance high levels of service and reduce costs, CNCS's Office of Information Technology (OIT) has outsourced the operation, maintenance and support of most of the Corporation's IT systems. While outsourcing is not inherently detrimental to the security posture of an organization, it introduces different considerations and new risks regarding the protection of information and information systems. Despite this outsourcing, CNCS by law retains responsibility for complying with the requirements of the Federal Information Security Modernization Act (FISMA) and security control implementation.

Our review of IT controls covered general and selected business process application controls both at the enterprise and at the facility levels, National Civilian Community Corps (NCCC) campuses and State Offices. Our current year audit identified security weaknesses that were corrected for certain control activities. Examples of CNCS improvements in its IT control environment include: establishment of security assessment standards to ensure consistency and quality, development of business impact assessments for each critical system, implementation of the United States Government Configuration Baseline (USGCB) for desktops and monitoring for compliance with those approved settings.

While the Corporation is taking a number of steps to remediate previously identified information security weaknesses, we identified new and continued control weaknesses in the information security program that need to be addressed, most importantly pertaining to configuration management, access controls, security management and contingency planning. Specifically, we identified enterprise and facility level findings for each of the following domains:

Configuration Management

- Vulnerabilities related to patch management, configuration management, and unsupported software exposed CNCS field offices networks to critical and high severity vulnerabilities. CNCS's vulnerability management program needs to improve to effectively identify, monitor and remediate known vulnerabilities to reduce the risk of security breaches.
- Standard baseline configurations for all platforms in the CNCS information technology environment were not fully implemented. For example, standard baseline configurations have not been implemented for CNCS operating systems, databases, servers, network devices, VMware, and Web browsers.
- Change management policies and procedures for testing and evaluating risk for network changes were not consistently implemented.
- The CNCS inventory tracking system did not reflect accurately the inventory of OIT devices and locations at Headquarters (HQ) and field offices. The HQ and field office inventories were maintained independently by the respective parties and the FasseTrack system was not integrated with the Headquarters inventory. As a result, a manual reconciliation is required to update the respective inventories.

EXHIBIT B (Continued)
Significant Deficiency

Access Control

- The account access review process was not effective at identifying inactive accounts or accounts belonging to separated employees or contractors. In addition, user access reviews and recertification of user accounts was not consistently performed for all systems.
- CNCS had not implemented Personal Identification Verification multifactor authentication for local and network access for privileged users and for network access for non-privileged users.
- Mobile devices provided to two CNCS field office's personnel such as Team Lead laptops were not securely configured and managed.
- CNCS did not capture the Momentum Oracle security logs into its event[1] correlation tool used for audit log review, analysis and reporting. The event and trend analysis to investigate security events is required by National Institute of Standards and Technology (NIST) for information systems categorized as moderate.[2]
- Although one field office has implemented two instances of continuous monitoring for its public wireless network and campus Computer Lab computers, the events detected were not being acted upon, as no one was monitoring the logs.
- Management at one field office did not ensure adequate protective controls were in place to protect personally identifiable information in a storage room to validate who was accessing the room.

Segregation of Duties

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

Security Management

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

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

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

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

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

Contingency Planning

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

Many of these weaknesses can be attributed to an inconsistent enforcement of the agency-wide information security program across the enterprise. These deficiencies can increase the risk of unauthorized access to CNCS systems used to capture, process, and report financial transactions and balances. Effective system security begins with strong governance, including agency level oversight and controls monitoring of CNCS field offices. Designing and implementing effective corporation level policies is the responsibility of the Chief Information Officer. In addition, managing the information and system security program across the Corporation is primarily the responsibility of the Chief Information Security Officer.

Although CNCS had policies for the operation of its information security program, its implementation of those policies across the enterprise and managing information security risk need strengthening to preserve the confidentiality, integrity, and availability of the CNCS's information and information systems. CNCS should increase its efforts to mature its risk management program and monitor compliance with CNCS information security policies and procedures.

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

The information system security officer is an individual responsible for ensuring that the appropriate operational security posture is maintained for an information system and as such, works in close collaboration with the information system owner. The information system security officer also serves as a principal advisor on all matters, technical and otherwise, involving the security of an information system. The information system security officer has the detailed knowledge and expertise required to manage the security aspects of an information system and, in many organizations, is assigned responsibility for the day-to-day security operations of a system.

We recommend CNCS:

1. Enforce the agency-wide information security program across the enterprise and improve performance monitoring to ensure controls are operating as intended at all facilities.

2. Strengthen and refine the process for communicating CNCS facility specific control deficiencies to CNCS facility personnel, and coordinate remediation of the control deficiencies.

3. Strengthen and refine the process for holding system owners and information system security officers accountable for remediation of control deficiencies and ensuring that the appropriate security posture is maintained for CNCS information systems.

4. Strengthen and refine the process for holding contractors accountable for remediation of control deficiencies in CNCS information systems.

5. Implement all detailed recommendations in the FY 2017 Federal Information Security Modernization Act (FISMA) Evaluation report.

EXHIBIT C
Management's Response

Corporation for National and Community Service

NationalService.gov

Memorandum

Date: November 13, 2017

To: Deborah Jeffrey, Inspector General

From: Robert McCarty, Chief Financial Officer

Subject: Independent Auditor's Report

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

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

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

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

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Corporation for NATIONAL & COMMUNITY SERVICE

EXHIBIT D
Status of Prior Year Findings

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

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

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

FISCAL YEAR 2017 (UNAUDITED) AND 2016
CONSOLIDATED FINANCIAL STATEMENTS

(Extracted From Fiscal Year 2017 Annual Management Report)

Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Footnotes for Consolidated Financial Statements

NOTE 1—Summary of Significant Accounting Policies

A. REPORTING ENTITY

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

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

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

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

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

Trust and Gift Funds:

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

Appropriated Funds:

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

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

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

B. BASIS OF ACCOUNTING

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

C. FINANCIAL STATEMENT PRESENTATION AND CONSOLIDATION POLICY

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

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

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

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

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

D. BUDGETS AND BUDGETARY ACCOUNTING

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

E. ASSET AND LIABILITY VALUATION

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

F. FUND BALANCE WITH TREASURY

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

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

G. CASH AND OTHER MONETARY ASSETS

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

H. INVESTMENTS AND RELATED RECEIVABLES

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

Since they are expected to be held-to-maturity, CNCS's investments are valued at cost and adjusted for the amortization of premiums and discounts. The premiums and discounts are recognized as adjustments to interest income, and are amortized using the level yield/effective interest method for the Notes and straight line method for the Bills. Interest receivable represents amounts earned, but not received on investments held at year-end. Prepaid interest is the amount of interest earned on a security since the date of its last interest payment, up to the date the security is purchased by CNCS. Such interest, if any, at year-end is included in the interest receivable balance. For additional information, see Note 3

I. CASH EQUIVALENTS

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

J. ADVANCES TO OTHERS

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

K. ACCOUNTS RECEIVABLE

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

L. GENERAL PROPERTY AND EQUIPMENT

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

The CNCS's capitalization policy, *Accounting for Capital Property*, was updated with an effective date May of Fiscal Year 2016. Property and Equipment acquired before this policy was implemented that does not meet the new capitalization criteria will be fully depreciated.

The primary change relates to the capitalization thresholds for each asset type. Prior to May 2016 threshold change, CNCS capitalized items with a cost of $50 thousand or greater for all asset types.

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

In addition, CNCS capitalizes Internal Use Software with an aggregate cost of $250 thousand or more. Internal Use Software is either purchased off the shelf, internally developed, or contractor developed solely to meet the CNCS's internal or operational needs. Internal-use software developed to meet CNCS's internal or operational needs will be recognized as capitalized internal-use software in development if the estimated developmental cost obligated on the contract meets the capitalization criteria. Internal-use software in development will be recorded at cost in the fiscal year when they are incurred and paid. The realization of internal-use software will be recognized in CNCS's financial records upon completion of the software development and when the title is passed to CNCS.
Refer to Note 5, General Property and Equipment, Net for additional information.

M. TRUST SERVICE AWARD LIABILITY

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

N. GRANTS PAYABLE

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

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

O. ACCOUNTS PAYABLE

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

P. ACTUARIAL FECA LIABILITY

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

Q. OTHER LIABILITIES

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

R. ACCRUED ANNUAL LEAVE

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

S. ADVANCES FROM OTHERS

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

T. NET POSITION

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

U. REVENUE RECOGNITION

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

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

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

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

V. RETIREMENT BENEFITS

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

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

W. INCOME TAXES

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

X. USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires CNCS to make estimates and assumptions about future events. These estimates and assumptions affect the amounts reported in CNCS's financial statements and accompanying notes. CNCS evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that it believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made when facts and circumstances warrant. As future events and their effects cannot be determined with certainty, actual results could differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the liability for service awards, grants payable, and grant advances. See Note 6 "Trust Service Award Liability" for more information about CNCS's use of estimates to record obligations in the Trust.

Y. CONCENTRATION OF RISKS

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

NOTE 2 – Fund Balance with Treasury

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

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

Fund Balance with Treasury as of September 30, 2017
(dollars in thousands) (unaudited)

	Unrestricted	**Restricted**		
Type	**Appropriated Funds**	**Trust Funds**	**Gift Funds**	**Total**
Obligated Not Yet Disbursed	$ 938,414	$ 669,082	$ 53	$ 1,607,549
Unobligated Available	9,728	204,198	501	214,427
Unobligated Unavailable	86,322	453	-	86,775
Non Budgetary FBWT	2,454	-	-	2,454
Investments *	-	(863,812)	-	(863,812)
Total	**$ 1,036,918**	**$ 9,921**	**$ 554**	**$ 1,047,393**

NOTE 2 – Fund Balance with Treasury---Continued

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

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

NOTE 3 – Investments and Related Receivables

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

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

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

NOTE 3 – Investments and Related Receivables--Continued

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

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

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

NOTE 4 – Accounts Receivable, Net

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

NOTE 5 – Property and Equipment, Net

General Property and Equipment as of September 30, 2017
(dollars in thousands) (unaudited)

Major Class	Service Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 – 10	$ 2,167	$ (1,377)	$ 790
ADP software in development	N/A	23,566	-	23,566
ADP software	2	13,847	(13,847)	-
Total		**$ 39,580**	**$ (15,224)**	**$ 24,356**

General Property and Equipment as of September 30, 2016
(dollars in thousands)

Major Class	Service Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 – 10	$ 4,010	$ (3,009)	$ 1,001
ADP software in development	N/A	11,907	-	11,907
ADP software	2	13,847	(13,117)	730
Total		**$ 29,764**	**$ (16,126)**	**$ 13,638**

NOTE 6 – Trust Service Award Liability

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

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

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

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

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

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

NOTE 7 – Operating Leases

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

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

	2017 (unaudited)				**2016**			
Fiscal Year	**Facilities Space**	**Vehicles**	**Other**	**Total**	**Facilities Space**	**Vehicles**	**Other**	**Total**
2017					7,916	818	482	9,216
2018	8,808	659	372	9,839	8,141	836	485	9,462
2019	9,052	666	373	10,091	8,372	855	498	9,725
2020	9,304	672	364	10,340	8,611	874	506	9,991
2021	9,565	679	365	10,609	8,856	895	521	10,272
2022	9,834	686	365	10,885				
Total	**$ 46,563**	**$ 3,362**	**$ 1,839**	**$51,764**	**$ 41,896**	**$ 4,278**	**$2,492**	**$48,666**

NOTE 8 – Actuarial FECA Liability

CNCS's actuarial liability for future workers' compensation benefits under FECA was $7.3 million *(unaudited)* and $ 7.6 million as of September 30, 2017 and 2016, respectively. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. As with all Federal agencies CNCS's FECA liability is determined by DOL. The actuarial liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds

NOTE 9 – Advances from Others

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

Advances from Others as of September 30 *(dollars in thousands)*				
		(unaudited) 2017		2016
Advances from Others-Federal	$	18,740	$	23,481
Advances from Others-Non-Federal		12		26
Total Advances from Others	**$**	**18,752**	**$**	**23,507**

NOTE 10 – Other Liabilities

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

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

NOTE 11 – Net Position

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

Net Position by Fund Balance Component as of September 30, 2017
(dollars in thousands) (unaudited)

	Appropriated Funds	Trust Funds	Gift Funds	Total
Unexpended appropriations	$ 970,315	$ -	$ -	$ 970,315
Cumulative results of operations	15,725	488,774	534	505,033
Total Net Position	**$ 986,040**	**$ 488,774**	**$ 534**	**$ 1,475,348**

Net Position by Fund Balance Component as of September 30, 2016
(dollars in thousands)

	Appropriated Funds	Trust Funds	Gift Funds	Total
Unexpended appropriations	$ 956,173	$ -	$ -	$ 956,173
Cumulative results of operations	5,983	430,535	391	436,909
Total Net Position	**$ 962,156**	**$ 430,535**	**$ 391**	**$ 1,393,082**

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

NOTE 11 – Net Position ---Continued

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

Restrictions on Net Position as of September 30, 2017
(dollars in thousands) (unaudited)

	Unrestricted	Temporarily Restricted	Total
Appropriated Funds	$ 986,040	$ -	$ 986,040
Trust Funds	-	488,774	488,774
Gift Funds	-	534	534
Total Net Position	**$ 986,040**	**$ 489,308**	**$ 1,475,348**

Restrictions on Net Position as of September 30, 2016
(dollars in thousands)

	Unrestricted	Temporarily Restricted	Total
Appropriated Funds	$ 962,156	$ -	$ 962,156
Trust Funds	-	430,535	430,535
Gift Funds	-	391	391
Total Net Position	**$ 962,156**	**$ 430,926**	**$ 1,393,082**

NOTE 12 – Appropriations Received by the National Service Trust

As of September 30, 2017 and 2016, the National Service Trust received $206.8 million *(unaudited)* and $220 million, respectively. CNCS is also authorized to transfer additional amounts from subtitle C program funds to the National Service Trust to support the activities of national service participants. Under the provisions of the law, CNCS transferred $9.1 million *(unaudited)* and $ 21.4 million to the Trust in FY 2017 and FY 2016, respectively. Accordingly, the National Service Trust received a total funding of $ 215.9 million *(unaudited)* in FY 2017, and $241.4 million in FY 2016, respectively.

NOTE 13 – Expenses

Costs for each sub-program are reported on separately:

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

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

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

The Senior Corps programs include grant expenses, as well as direct and allocated personnel and administrative costs for RSVP, FGP, and SCP. CNCS also has reimbursable agreements with several state agencies whereby CNCS awards and administers grants to a list of grantees selected and funded by the State (pass-through grants). The activity related to pass-through grants has been reclassified to be associated with the related Senior Corps program.

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

Innovation, Demonstration, & Assistance Activities (ID&A Activities) include grants to support and encourage new forms of service and volunteering. The most significant program is the Social Innovation Fund (SIF). The primary objective of the SIF is to improve the lives of people in low-income communities by mobilizing public and private resources to grow innovative nonprofit organizations that have evidence of compelling impact in the areas of economic opportunity, youth development, and healthy futures. No indirect costs have been allocated to the Innovation, Demonstration, & Assistance Activities component. SIF did not receive funding in FY2017.

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

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

Expenses by Major Responsibility Segment for the Period Ended September 30 *(dollars in thousands)*				
	2017 (unaudited)		**2016**	
AmeriCorps				
State/National	$ 510.145		$ 480.375	
NCCC	72,261		65,315	
VISTA	147,561		136,700	
Subtotal		**$ 729,967**		**$ 682,390**
Senior Corps				
RSVP	49,196		50,998	
Foster Grandparent Program	104,730		111,721	
Senior Companion Program	45,655		48,498	
Subtotal		**199,581**		**211,217**
Innovation, Demonstration, & Assistance Activities		50,517		59,620
J Special Authority		1,803		-
Office of Inspector General (OIG)		5,067		4,964
Total Expenses		**$ 986,935**		**$ 958,191**

NOTE 14 – National Service Award Expense

Members serving in approved national service positions are eligible to earn a service award to pay for qualified education expenses.

The National Service Trust also pays interest forbearance costs on qualified student loans during the period members perform community service.

CNCS estimates the expense for national service awards based on the increase in its cumulative service award liability during the year (see Note 6). The total service award liability as of September 30, 2017 *(unaudited)* and 2016, respectively, has been adjusted to reflect the fact that earned awards are not always used.

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

NOTE 15 – Change in Unexpended Appropriations, Net

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

NOTE 16 – Contingencies

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

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

NOTE 17 – Subsequent Events

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

NOTE 18 – Undelivered Orders at the End of the Period

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

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

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

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

NOTE 20 – Contributed Capital (Donations)

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

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

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

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

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

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

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