CORPORATION FOR NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

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

OIG Report 20-01

Prepared by:

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

This report was issued to Corporation management on November 20, 2019. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than May 20, 2020, and complete its corrective actions by November 20, 2020. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL & COMMUNITY SERVICE

November 20, 2019

MEMORANDUM TO:	Barbara Stewart Chief Executive Officer
FROM:	Monique P. Colter /s/ Assistant Inspector General for Audit
SUBJECT:	Audit of the Corporation for National and Community Service's Fiscal Year 2019 Consolidated Financial Statements, OIG Report 20-01

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

- **Disclaimer of Opinion**: CNCS was unable to provide adequate evidential matter to support a significant number of transactions and account balances due to inadequate processes and controls to support transactions and estimates, and inadequate records to support accounting for transactions in accordance with generally accepted accounting principles. CLA has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

- **Nine material weaknesses** and **two significant deficiencies** in CNCS's internal control over financial reporting. These issues included:

    - Material Weaknesses:
        1. Internal Controls Program;
        2. Financial System and Reporting;
        3. Trust Obligations and Liability Model;
        4. Grants Accrual Payable and Advances;
        5. Undelivered Orders and Accounts Payable - Procurement;
        6. Property and Equipment;
        7. Undelivered Orders - Grants;
        8. Recoveries of Prior Year Obligations; and
        9. Other Liabilities.

- Significant Deficiencies:
    1. Information Technology Security Controls; and
    2. Accounts Receivable and Allowance for Doubtful Accounts.

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

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

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

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

As Stated,

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

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the Corporation for National and Community Service (CNCS), which comprise the consolidated balance sheet as of September 30, 2019, the consolidated statement of net cost and changes in net position, the combined statement of budgetary resources, for the year then ended, and the related notes to the consolidated financial statements (referred to herein as consolidated financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 19-03). Because of the matters described in the Basis for Disclaimer of Opinion paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements.

Basis for Disclaimer of Opinion

CNCS was unable to provide adequate evidential matter to support a significant number of transactions and account balances, as presented in the accompanying consolidated financial statements as of and for the year ended September 30, 2019, due to inadequate processes and controls to support transactions and estimates, and inadequate records to support accounting for transactions in accordance with the U.S. generally accepted accounting principles.

Disclaimer of Opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements of the Corporation for National and Community Service. Accordingly, we do not express an opinion on the consolidated financial statements.

Emphasis of Matter

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

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

Internal Control over Financial Reporting

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

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

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

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

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

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

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

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

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

Had we been able to obtain sufficient appropriate audit evidence to express an opinion on the consolidated financial statements, other material weaknesses or significant deficiencies may have been identified and reported herein.

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

As part of obtaining reasonable assurance about whether CNCS's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

Management's Responsibility for Internal Control and Compliance

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

Auditors' Responsibilities

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

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

CNCS's Response

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

Auditors' Response

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

Status of Prior Year Findings

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

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

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

CliftonLarsonAllen LLP

CLIFTONLARSONALLEN LLP
Arlington, Virginia
November 7, 2019

EXHIBIT A
Material Weaknesses

1. Internal Controls Program (modified repeat material weakness)

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

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

Internal control deficiencies included:

- CNCS's internal control program failed to identify the following five material weaknesses in its Chief Executive Officer's (CEO's) assurance statement that we reported in both FYs 2018 and 2019 financial statements audit results:
    - Material weakness number 1- Internal Controls Programs[1]
    - Material weakness number 2- Financial System and Reporting[2]
    - Material weakness number 7- Undelivered Orders - Grants[3]
    - Material weakness number 8- Recoveries of Prior Year Obligations
    - Material weakness number 9- Other Liabilities

- CNCS's internal control program designated the following two material weaknesses, but with insufficient justifications:

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

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

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

- Material weakness number 4- Grants Accrual Payable and Advances[4]
- Material weakness number 6- Property and Equipment[5]

- CNCS's CEO assurance statement stated that CNCS could provide reasonable assurance that CNCS's internal control over operations, reporting and compliance was operating effectively as of September 30, 2019, except for the material weaknesses that CNCS identified. However, even for those material weaknesses that CNCS identified, CNCS did not address their potential impact on the financial statements or identify their root causes. In addition, CNCS did not provide us with evidence to support this modified assurance statement. Our review disclosed that the modified assurance statement was not justified by the results of CNCS's own internal control testing. The assurance statement may mislead stakeholders on the status of CNCS's internal controls over operations, reporting and compliance that could affect decisions impacting CNCS.
- CNCS did not effectively implement corrective action plans to remediate prior-year financial statement audit findings to resolve any of the ten material weaknesses[6] and two significant deficiencies identified in last year's financial statement audit. All ten of those material weaknesses and two significant deficiencies persisted during FY 2019.
- CNCS's entity-level control assessment noted that the 17 entity-level control principles[7] were rated low risk overall, with only five rated a medium risk. However, we found that the basis for some of the ratings was not fully supported by the documentation of CNCS's assessment, or inconsistent with the results of our findings. Directors of the functional offices participating in the entity-level control assessment did not have a full understanding of the internal control principles and how those principles relate to their operations. In addition, they did not consider outstanding audit recommendations related to their operations during the process of assessing entity-level controls.
- For those material weaknesses that CNCS identified, CNCS did not address the potential impact on the financial statements or identify the root cause for those deficiencies.
- CNCS identified financial reporting as a significant deficiency, although we have reported it as a material weakness since the FY 2017 audit.

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

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

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

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

EXHIBIT A
Material Weaknesses

- CNCS's Financial Reporting Business Process Narrative indicates that general ledger account or financial statement line item balance changes that meet or exceed 10 percent and $1 million will require a detailed explanation as part of its balance fluctuation analysis. However, our testing confirmed that CNCS actually used 10 percent and $7 million as a fluctuation analysis threshold. Further, CNCS's internal control testing indicated that the fluctuation analysis was properly performed in the third quarter. We continued to identify internal control deficiencies regarding CNCS's balance fluctuation analysis with inadequate documentation; use of generic explanations on significant account fluctuations; and errors in the formula used to calculate the fluctuations. See Financial System and Reporting material weakness below for details.

- CNCS's Grants Financial Management Process Narrative did not identify a control gap to verify the accuracy of CNCS's reporting of Advances to Others, which is adjusted based on the grant accrual estimate. We reported Grants Payable and Advances as a material weakness since FY 2017.

- CNCS's Office of Information Technology failed to disclose on its assurance statement the following exceptions identified in CNCS's internal control objectives for CGI – Momentum, CNCS's financial system:
    - <u>Control Objective</u>*: To ensure CNCS limits virtual access of CGI networks and user systems to authorized (employees) parties only.* CNCS's Internal Control Program (ICP) noted that none of the Momentum accounts for employees who departed CNCS during the period of July 1, 2018, through March 31, 2019 were disabled from Momentum.
    - <u>Control Objective</u>*: Ensure CNCS limits virtual access of CGI networks and user systems to authorized (employees) parties only and reports any changes to CGI in a timely manner.* ICP indicated that no quarterly reviews of user-profiles have been conducted since July 2018. Momentum is at risk of allowing access to parties that do not require system access.

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

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

- CNCS, in assessing the information security risks on its external systems managed by service providers, did not address the gap periods between the system audit coverage ending dates and CNCS's fiscal year-end date (September 30, 2019), ranging from 30 to 183 days. Specifically, CNCS did not review external system audit reports timely after the reports were issued to allow time to follow up concerning the gap in audit coverage. CNCS did not establish a requirement to obtain a gap letter from its external system service providers to obtain information regarding material changes in internal controls affecting the systems or perform timely review of the external system service providers' audit reports.

- CNCS did not complete a risk register that records identified risks at the mission and business process level or Tier 2 as defined by the National Institute of Standards and Technology. CNCS has delayed the preparation of a new risk register from February 2019 to December 2019. The existing risk register, the first one prepared by CNCS, did not meet all of the applicable requirements, as it simply collected inputs of staff, not all of whom had a clear understanding of risk principles. Leadership from various CNCS functional offices continue to develop the risk register at the mission and business process levels. However, with the recent departure of the Chief Risk Officer and other key personnel, the deployment of the risk register in December 2019 is at risk.

While we did not audit the internal control over programmatic operations, we also take note that CNCS has not completed or implemented corrective actions to address the grant monitoring weaknesses reported by GAO[8] and by CNCS-OIG.[9] These open recommendations relate to the accuracy of CNCS's grant risk assessment and the design and effectiveness of its grant management and monitoring. The absence of sound monitoring of CNCS's core business, which accounts for 75 percent of its operating budget, represents a potentially critical gap in the internal control over operations.[10]

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

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

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

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

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

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

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

We recommend that CNCS:

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

2. Provide training to CNCS officials participating in the entity-level control assessment to ensure that they have a full understanding of the internal control principles and how these principles relate to their operations. The training shall also address how the outstanding audit recommendations concerning their operations should be considered when assessing the entity-level controls. (new)

3. Revise the *CNCS Statement of Assurance Preparation and Submission Guidance* (March 2019) to:

    a. Require the functional offices to consider external and internal audits and investigations in identifying and reporting on control deficiencies.

    b. Require the functional offices to identify the impact that the material weakness or significant deficiency has on the financial statements or on CNCS's operations in their assurance statements. (new)

4. Revise the CNCS Financial Reporting Testing Plan to include verifying that the fluctuation analyses are conducted properly within the required thresholds. (new)

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

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

5. Revise the FY 2019 CNCS Grants Financial Management Business Process Narrative to address the control gap concerning the verification of the Advances to Others balance accuracy. (new)

6. Provide training to appropriate CNCS personnel regarding the purpose of the Data Quality Plan. (new)

7. Update and maintain the Data Quality Plan in accordance with OMB Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk* (M-18-16, June 6, 2018), and subsequent amendments. (new)

8. Update CNCS's *Standard Operating Procedure: Statement on Standards for Attestation Engagements (SSAE) 18 Report Review* to explain how CNCS will address the SSAE 18 audit reporting gaps for its external systems' service providers and establish time requirement for conducting the SSAE 18 report reviews. (new)

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

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

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

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

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

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

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

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

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

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

a. There were errors in the Government-wide Treasury Account Symbol (GTAS)[14] submission process that went undetected by CNCS's quality control process. For example, CNCS did not record the $150 million rescissions enacted in the 2019 Appropriation Act on September 28, 2018. CNCS explained that it had been waiting for OMB guidance from the third quarter GTAS submission prior to recording the rescission. However, CNCS was unable to provide corroborating evidence after multiple requests from us. The only correspondence provided to us was a November 1, 2019 email showing that OMB identified CNCS's failure to record the rescission during CNCS's September 2019 GTAS submitted on October 29, 2019. In another instance, CNCS recorded a $2.2 million erroneous adjustment in an attempt to pass the FY 2019 first quarter GTAS submission. CNCS was unable to support the cause of the error.

b. CNCS did not implement prior-year recommendations to remediate control weakness in its financial reporting process. CNCS's monthly trial balance review was incomplete and ineffective. CNCS did not properly research, follow up and effectively document explanations for known and recurring account balance differences, including abnormal account balances. These errors resulted from incorrect core accounting system (Momentum) configuration. Accordingly, there were discrepancies between the budgetary and proprietary relationship in which CNCS should analyze. The

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

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

c. Other financial reporting internal control deficiencies include lack of adequate control over the review of the financial statements and corresponding financial statement checklists; significant prior period adjustments without adequate support; significant inconsistencies between CNCS's accounting structure and that required by Treasury Financial Manual; reconciliation differences between CNCS financial statements and its trial balance; and inability to maintain and track trading partner agreements and advances of funds received from inception to close-out.

d. CNCS did not provide a complete set of its September 30, 2019, financial statements (including notes) until November 6, 2019, only 13 days before the mandatory reporting deadline of November 19, 2019.

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

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

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

We recommend that CNCS:

9. Establish a process to maintain executed agreements with Federal trading partners and track all associated costs against the inter-agency agreements from inception until the agreement close-out. (new)

10. Develop comprehensive policies and procedures for the financial statements preparation process and related internal controls. The policies and procedures should address, among other subjects:
    a. The process to determine and document CNCS's balance fluctuation expectations. Expectations should be documented based on a combination of internal and

external operating factors, and program and financial relevant information available.

b. The materiality threshold used to determine significant balance fluctuations that require further research should be more conservative than that used by external auditors.
c. Detailed process to research significant balance fluctuations. CNCS should research and explain all significant balance fluctuations at the account and transaction level. Maintain and have the supporting documentation readily available.
d. Research and retain supporting documents required for any identified account balance differences derived from its abnormal balance review or the tie point analysis.
e. Address fatal and non-fatal Government-wide Treasury Account Symbol Trial Balance edit failures.
f. Address all balance differences and retain supporting documentation of related research.
g. Document and maintain support for all prior period adjustments and changes to Net Position accounts, Cumulative Result of Operations, and Unexpended Appropriations. (repeat)

11. Monitor outstanding balances resulting from financial system configuration issues and fix these issues prior to data migration to the future shared service provider (Department of Treasury's Administrative Resource Center) in FY 2021. While waiting to transition, CNCS should strengthen its current trial balance review including tie-point analysis and review of abnormal balances. (modified repeat)

12. Coordinate with the future shared service provider to ensure that its accounting platform is compatible with CNCS's operations and the type of accounting transactions that the CNCS process. (new)

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

B. Systematic deficiencies in the core financial system

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

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

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

We recommend that CNCS:

14. Complete its efforts to be fully compliant with the Office of Management and Budget Circular No. A-11, *Preparing, Submitting, and Executing the Budget*. (repeat)

15. Provide mandatory training to CNCS accounting staff on the proper use of object class, sub general ledger accounts, and document/transaction types on all obligation and expense transactions. (repeat)

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

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

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

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

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

We recommend that CNCS:

16. Validate and ensure standard vouchers/journal vouchers are properly supported, documented, and are readily available for examination. (modified repeat)

17. Strengthen coordination between Accounting and Financial Management Services and the Office of Budget to ensure that transactions are recorded accurately and timely. (modified repeat)

18. Develop and implement policies and procedures for the standard vouchers/journal vouchers (SV/JV) process that include:
    a. tracking the sequence of SVs/JVs for completeness;
    b. appropriate use of SVs/JVs;
    c. determining and maintaining relevant documentation to support each SV/JV;
    d. use of specific and accurate SV/JV descriptions; and
    e. timely review and approval of SVs/JVs for accuracy and propriety. (modified repeat)

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

CNCS's June 30, 2019 (interim) financial statements were not prepared in accordance with GAAP and OMB Circular No. A-136.[15] Starting in FY 2018, CNCS adopted full compliance with all sections of OMB Circular No. A-136, Sections I, II, III, IV, and V for financial reporting framework. OMB Circular No. A-136 requires comparative financial statements for financial reporting requirements. CNCS, during the fourth quarter of FY 2019, decided to deviate from OMB Circular No. A-136 by presenting a single year financial statements for June 30, 2019 and September 30, 2019 instead of comparative financial statements. However, CNCS elected to follow OMB Circular No. A-136 requirements for other aspects of financial statement presentation.

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

We recommend that CNCS:

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

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

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

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

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

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

We also have concerns with the model's assumptions. CNCS's estimation model does not adequately reflect the increase in the average expenditure over time. The data used by CNCS (completed[16] data for awards granted from 1994 to 2009) shows an overall long-term trend of increase in utilization of education awards for which is not adequately accounted in CNCS's methodology. In addition, CNCS methodology did not use available current data that if considered would provide a more accurate depiction of future liabilities versus using older years. For example, we noted that the program year 2010 was approximately 99 percent complete and would provide a more accurate prediction of future liabilities versus the older years used in CNCS model from program years 1994 to 2004. By failing to consider these factors, CNCS could misstate its obligations and liabilities.

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

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

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

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

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

We recommend that CNCS:

21. Complete the Trust Accounting Handbook to clearly reflect the assumptions used in the Trust Obligation and Liability Model and the Monthly Obligation and Liability Calculator, including establishing control activities; finalize materiality thresholds applied; update accounting transactions, and clearly identify periods when adjustments will be made regardless of materiality. (new)

22. Develop for a more standardized, secure, and automated method to estimate the Trust obligations and Trust Service Award Liability that ensures minimal human errors. As part of the ongoing CNCS's transition to shared service, coordinate with the service provider to determine methods that would enhance the security and quality of the existing estimation models. (new)

23. Strengthen controls to ensure the Trust modeling is performed by trained personnel to:
    a. Conduct detailed analysis and validation of data sources.
    b. Review and ensure the reasonableness of assumptions used and document the rationale behind estimation assumptions.
    c. Consider changes in conditions or programs that require further research and analysis. Update the assumptions when necessary.
    d. Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates.

24. Document and implement policies and procedures to include the following:
    a. establish a thorough and robust quality control process to ensure that the Trust Obligation and Liability Model (TOLM) and Monthly Obligation and Liability

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

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

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

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

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

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

CNCS changed its grant accrual methodology in FY 2019 to exclude "incurred but not reported" (IBNR) costs[17] from the accrued expenses and liability. However, CNCS did not provide documentation to support its decision to exclude the IBNR costs from the grant accrual estimate. The omission of IBNR costs from the grant accrual estimate has a direct impact on advances as those costs would have been applied against the outstanding advance balance.

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

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

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

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

We recommend that CNCS:

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

- Post-accrual analysis to compare the accrual (without the IBNR) and the expenditures reported in the FFRs for the same quarter. Thresholds should be established and documented based on materiality and the degree of risk that management is willing to accept. When grantees' reported spending pattern deviates from its methodology, an analysis should be performed to determine whether any deviation is acceptable or the methodology should be further refined to reflect the actual grantees' reported expenditure pattern. (modified repeat)

28. Revise and implement policies and procedures for the grant accrual methodology so that:
    - A validation process is established for management to verify the accuracy of the grant accrual, so that management can make any necessary adjustments to improve the precision of the grant accrual and to account for grant advances and payables to ensure the resulting amounts are materially consistent with grantees' drawdown and spending patterns;
    - It addresses how the calculations are used to arrive at the Grants Payable and Advances to Other line items in the financial statements. (modified repeat)

29. Develop a process to validate grant advances, incurred but not reported and payable estimates. Such validation should be performed for all program elements included in the estimation process and over a few years to show a trend of the estimates. Unusual fluctuations, if any, should be investigated and the research conclusions documented. (modified repeat)

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

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

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

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

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

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

We recommend that CNCS:

30. Centralize the storage of all procurement documents in contract files and maintain them electronically. (repeat)

31. Strengthen internal control to ensure procurement documents are properly approved and retained. (repeat)

32. Analyze procurement undelivered orders balances quarterly to verify that balances are still valid for those without financial activities for an extended period. (repeat)

33. Research, resolve and document the disposition of any abnormal undelivered orders transactions/balances. (repeat)

34. Correct the financial system's posting logic to ensure all future transactions are recorded properly in accordance with United States Standard General Ledger. (repeat)

35. Document the accounts payable accrual methodology to include the recognition and reporting of the incurred but not reported. The methodology should also document key controls related to review and approval process of the accrual estimation; materiality and how it is applied; reviewing, approving, and recording of invoices prior to processing payments; inputs to be used in the validation; consideration of payment types; and the basis for including or excluding typical factors in estimating accruals, such as period of performance, type of contract, billing patterns, and others. (modified repeat)

36. Conduct validation assessment of amounts accrued for the incurred but not reported on a periodic basis. As part of the validation, CNCS should consider the following:
    a. Subsequent activities against the amount estimated to determine the level of precision in the estimation;

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

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

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

6. Property and Equipment (modified repeat material weakness)

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

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

We recommend that CNCS:

39. Analyze contractor-developed software costs that were expensed but not capitalized in accordance with accounting standards. (repeat)

40. Update CNCS policy to recognize and record capitalized costs in the period incurred. (repeat)

41. Update CNCS policy to include requirements for compliance with accounting standards; track direct labor and other indirect costs, including hours, worked and payroll costs dedicated to existing and new software-in-development projects; track and amortize tenant improvement costs in accordance with the lease agreement. (new)

42. Review the GMM contract status to ensure proper and timely deobligation of any remaining unliquidated obligations that are no longer needed. (new)

43. Consult with the future shared service provider and other stakeholders to determine the feasibility of procuring and using project management software to track project costs from the inception to completion. The results of the analysis should be documented and made readily available. (new)

44. Establish and implement periodic training on capitalization accounting standard, and CNCS Capitalization Policy for accounting, program, Office of Facility Support Services, and information technology staff. (new)

45. Develop and perform a periodic analysis of expenses incurred, *e.g.,* software-in-development costs and repairs and maintenance, to determine if they meet the capitalization requirements and conduct any follow-up to ensure costs are properly capitalized. (new)

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

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

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

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

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

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

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

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

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

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

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

D. Grants were not closed-out timely

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

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

The transaction code used by CNCS to record grant expenditures for 178 grant samples were not consistent with the USSGL transaction codes. CNCS's transaction code erroneously obligates funds that cause duplicated obligations by recording incorrect USSGL accounts. As a result, a subsequent transaction is required to eliminate the duplicate obligation recorded.

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

We recommend that CNCS:

46. Determine the root cause behind the differences noted in the Undelivered Orders balance between Momentum and the Undelivered Orders balance derived from the net of grant award amount from the Notice of Grant Award and the grant expenditures from the Payment Management System, and take the appropriate steps in resolving the reason behind the variances that are occurring. (new)

47. Determine the root causes and resolve discrepancies in the grant award amounts recorded in the NGA in eGrants and in Momentum to prevent such differences from occurring in the future. (repeat)

48. Determine the root causes and resolve expenditure differences between the Payment Management System and Momentum. (repeat)

49. Strengthen controls around the review of expired grant obligations by ensuring that:
    a. All financial, performance and other required reports are submitted no later than 90 calendar days after the end date of the period of performance.
    b. Document justifications for all required reports submission extensions granted to the grantee. (repeat)

50. Update the CNCS transaction code posting logic for recording grant expenditures to comply with the United States Standard General Ledger guidance. (repeat)

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

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

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

We recommend that CNCS:

51. Establish a requirement for Grant Officer/Portfolio Managers to provided documented certification that all required grantee information has been received, accepted, and documented before the grant is closed out. (repeat)

52. Revise its OMB Circular No. A-123 internal control program testing to include a review of contract modifications. (new)

53. Establish a control requiring the Grant Officer/Portfolio Manager to provide documented certification, upon grant closeout, verifying the total award amount to total award expenses for the deobligated recovery amount. (repeat)

54. Determine the cause for the travel cost recovery difference to ascertain what corrective action is needed and to prevent issues from recurring. (new)

55. Inform all Grant Officers/Portfolio Managers to ensure that a reduction in funding to the award of a grant should be documented in eGrants which would result in modified Notice of Grant Awards. (new)

9. Other Liabilities (modified repeat material weakness)

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

We recommend that CNCS:

56. Reconcile the amounts reported in Other Liabilities to supporting documents to verify that Other Liabilities are supported by valid transactions and properly classified. (repeat)

57. Strengthen financial reporting internal controls and ensure that financial statements accounting line items are reviewed and reconciled to supporting documents prior to recording. The internal control activities should ensure proper posting of Member Payroll related liabilities on the Balance Sheet. (modified repeat)

EXHIBIT B
Significant Deficiencies

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

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

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

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

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

Configuration Management

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

  CNCS's vulnerability management program needs to improve to effectively identify, monitor and remediate known vulnerabilities to reduce the risk of security breaches. This includes monitoring and recording actions taken by the General Support System (GSS) contractor to ensure vulnerability remediation for network devices and servers are addressed or the exposure to vulnerabilities is minimized (Modified Repeat)

- CNCS documented standard baseline configurations only for its Microsoft Windows servers, but not for its databases, network devices, and Web browsers. (Repeat)

- CNCS did not effectively manage its information system inventory resulting in issues related to the completeness and accuracy of the inventory. (New)

Access Control

- CNCS did not effectively manage user accounts and/or passwords for the network, Momentum, My AmeriCorps Staff Portal, and Electronic-Systems for Program Agreements and National Service Participants (eSPAN).
    - Separated users maintained active accounts for Momentum. In addition, although network accounts were disabled, accounts were not removed from the My AmeriCorps Staff Portal Active Directory (AD) Organizational Unit.[18] Access to My AmeriCorps Staff Portal is managed through AD; therefore, if the AD accounts were re-enabled, access to the application would be maintained. (Modified Repeat)
    - CNCS did not disable inactive accounts for the network and My AmeriCorps Staff Portal. (New)
    - CNCS did not perform recertification of Momentum user accounts during the first two quarters of FY 2019 as required by the CNCS policy. (New)
    - CNCS did not disable network and eSPAN accounts when the user's password was not changed in accordance with CNCS policy or the System Security Plan. (New)

- CNCS did not implement multifactor authentication[19] (*e.g.*, PIV card) for local and network access for privileged users. In addition, although multifactor authentication for network access was being implemented for non-privileged users on Microsoft Windows 10 workstations in July 2019, it was not fully enforced by the end of FISMA fieldwork in August 2019. Users were still able to log in with just a user name and password. (Modified Repeat)

- Management at Headquarters and one field office did not ensure adequate physical access controls. (Modified Repeat)

- Wireless network logs at two field offices were not reviewed and analyzed by the campus personnel. (New)

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

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

EXHIBIT B
Significant Deficiencies

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

Security Management

- CNCS developed an information system risk register; however, it did not complete a risk register to record identified risks at the mission and business process level, as defined by NIST.[21] (Modified Repeat)

- CNCS did not ensure all Momentum, eSPAN, and My AmeriCorps Staff Portal users completed system access agreements (Rules of Behavior) prior to gaining system access. (New)

- CNCS did not ensure certain employees had the proper background investigations in accordance with the risk associated with their assigned positions. (Repeat)

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

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

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

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

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

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

We recommend that CNCS:

58. Develop a multi-year strategy to better strategically prioritize and allocate resources to address the new and continuing weaknesses identified and work towards automation, continuous monitoring and consistent application of controls. (repeat)

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

60. Strengthen and refine the process for communicating CNCS facility-specific control deficiencies to CNCS facility personnel, and coordinate remediation of the control deficiencies. (repeat)

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

62. Strengthen and refine the process for holding contractors accountable for remediation of control deficiencies in CNCS information systems. (repeat)

63. Implement all detailed recommendations in the FY 2019 FISMA Evaluation report. (repeat)

2. Accounts Receivable and Allowance for Doubtful Accounts (modified repeat significant deficiency)

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

- CNCS did not follow its Debt Management Policy by writing off AR items delinquent for two years or more. We identified approximately $2 million in AR balances as of June 30, 2019, that were not written-off or should have been included in the allowance for doubtful accounts (allowance) calculation.

- CNCS did not update its allowance methodology since 2011 to reflect the requirements in its 2017 Debt Management Policy.

- CNCS did not update its assumptions used in the allowance calculation based on its current AR collection patterns.

We recommend that CNCS:

64. Reconcile the Accounts Receivable subsidiary ledger to the general ledger monthly. (repeat)

65. Reevaluate the policies and procedures for calculating the allowance for doubtful accounts. Related policies and procedures should include: (a) CFO Office's staff's periodic review of the accounts receivable aging report, (b) assessment of the collectability of outstanding balances based on the age of the debt, collections attempted and received thus far and other information about the debtor and (c) determination for possible write-offs. (repeat)

66. Revise the Allowance for Doubtful Accounts methodology to be consistent with the Debt Management Policy. (repeat)

67. Develop a process and proactively monitor and follow-up on delinquent accounts receivables. Document any procedures performed and results reached as part of the follow-up process. (new)

68. Track and revise collection efforts based on data analysis to understand vendor payment characteristics. A reasonable timeframe for write-offs should be established for accounts receivable without any activity. Once an outstanding receivable is deemed uncollectible, it should be written off in accordance with management's established policy. (repeat)

69. Establish a documented process between accounting and the Office of Chief Risk Officer (OCRO) to ensure that key controls related to the Accounts Receivable cycle are properly identified and implemented. These key controls should be considered for testing as part of OCRO's annual internal control assessments. (new)

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

1. Single Audit Compliance

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

- For one grantee, CNCS did not follow-up timely after a grantee that was late in submitting its single audit report to the Federal Audit Clearinghouse (FAC). The audit report was submitted 3 months and 30 days late. CNCS did not follow-up with the grantee until the audit report was already 3 months and 2 days late. CNCS did not provide any documentation as to the cause for its delay in following up or the cause for why the grantee was late in submitting the audit report. CNCS does not have a process in place to promptly identify those CNCS grantees that are late in submitting their single audit reports to FAC so that CNCS could follow-up to ascertain the cause for the delay, confirm report submission date, and ensure that the grantee takes corrective action to prevent delays from occurring in future.

- CNCS did not document an audit extension for another grantee to submit its single audit report to the FAC. The single audit was due to FAC on June 30, 2019. CNCS indicated that the grantee was affected by Hurricane Maria and that OMB indicated that it could allow the grantee to delay submission for twelve months after the typical audit report submission due date. However, CNCS provided no documented evidence that it implemented the OMB guidance, as it was not an automatic "pre-approved" extension of single audit report filings for impacted grantees and agencies were still required to take specific actions. CNCS does not require CNCS grant staff to document and track implemented OMB approved extensions for submitting single audit reports.

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

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

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

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

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

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

We recommend that CNCS:

70. Develop, implement and document procedures to identify all CNCS grantees that are required to submit single audit reports with their due dates. (new)

71. Develop, implement and document procedures on timely follow-up for those grantees whose audits have become past due, and to ascertain why report submission was late, when the audit report will be submitted to the Federal Audit Clearinghouse, and what corrective action has been taken to prevent a report submission delay in future. (new)

72. Develop a practice to capture the single audit data to assess the effectiveness of the single audit report submission for all its grantees. (new)

73. Develop, implement and document procedures for implementing Office of Budget and Management (OMB) approved single audit report submission extensions, so that OMB approved extension approvals are documented and tracked as part of the single audit monitoring process. (new)

74. Update the *Single Audit Resolution Policy* to:
    - Reflect the current monitoring process to track all audit findings related to CNCS-funded grants, and
    - Address CNCS's responsibilities as the cognizant/oversight agency and how these responsibilities would be carried out. (new)

75. Develop and implement procedures to monitor the effectiveness of the single audit monitoring process in accordance with the Uniform Grant Guidance, 2 Code of Federal Regulation §200.513 Responsibilities, (a) (3) (iv), related to monitoring the effectiveness of single audit findings follow-up and the effectiveness of single audits in improving grantee accountability and in their use by CNCS in making award decisions. (new)

EXHIBIT D
Management's Response

Corporation for National and Community Service

NationalService.gov

CNCS Management Response
November 19, 2019

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

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

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

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

R.T. McCarty

Robert McCarty
Chief Financial Officer
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Corporation for NATIONAL & COMMUNITY SERVICE

EXHIBIT E
Status of Prior Year Findings

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

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

EXHIBIT E
Status of Prior Year Findings

Type of Finding	*FY 2018 Finding*	*FY 2019 Status*
Significant Deficiency	Accounts Receivable and Allowance for Doubtful Accounts	Modified Repeat: Significant Deficiency

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