



Office of Internal Audit

Report to the Board of Directors

June, 2017

COMMUNITY SERVICE ASSOCIATION

Review of Fiscal Year 2016 Financial Schedules

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INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors
Community Service Association

We have reviewed the accompanying schedules of assets and equity and operating income of the Community Service Association (a nonprofit organization) for the year ended 31 August 2016. The Community Service Association's management is responsible for the schedules of assets and liabilities and the receipts and disbursements. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and accordingly, included examining on a test basis evidence supporting the schedules of assets and liabilities and receipts and disbursements. We believe that our examination provides a reasonable basis for our opinion.

In our opinion the schedules referred to above, presents in all material respects, the financial position and income of the Community Service Association for the fiscal year ended 31 August 2016 based on the cash basis method of accounting.

This report is intended solely for the information and use of the Community Service Association and is not intended to be and should not be used by anyone other than these specified parties.

Office of Internal Audit

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1 June 2017

Community Service Association
Schedule of Assets and Equity
31 August 2016

Assets			
	First Financial – Checking	159,619	
	First Financial – Savings ¹	<u>18</u>	
Total Assets			<u>159,637</u>
Equity			
	Unrestricted Equity	167,068	
	Operating Loss	<u>(7,431)</u>	
Total Unrestricted Equity			<u>159,637</u>

¹ Includes \$12 of interest income recorded in October 2016.

Community Service Association
 Schedule of Operating Income
 For the Fiscal Year Ending 31 August 2016

Receipts

Direct Public Support – Employees of San Diego Unified	\$ 92,193
Public Support	46,617
Miscellaneous Revenues	15,601
Interest Income ¹	<u>19</u>

Total Receipts **\$154,430**

Expenses

Charitable Grant Making	\$119,019	
Charitable Contributions	<u>17,967</u>	
Charitable Grants and Contributions		136,986
Operating Costs		
Contractual Payroll Services	21,335	
Contractual Services	1,835	
Business Expenses	264	
Supplies, Postage, Mailing Services	809	
Printing and Copying	512	
Licenses, Registration and Filing Fees	<u>120</u>	
Operating Costs		<u>24,875</u>

Total Expenses **161,861**

Net Operating Loss **\$ (7,431)**

¹ Does not include \$12 of interest income recorded in October 2016.

To the Board of Directors
Community Service Association

At the direction of the Superintendent of Public Education, the Office of Internal Audit (OIA) performed a review of the Community Service Association schedules of assets and fund equity and its schedule of operating income for the fiscal year ending 31 August 2016 (FY-16). We provided our report of that review to you on 1 June 2017.

CSA management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of the cash basis of accounting; determining whether the use of the cash basis of accounting is an acceptable basis for presentation of the financial statements; and for the preparation and fair presentation of the financial statements in conformity with the cash basis of accounting.

Our responsibility is to conduct the review in accordance with the cash basis of accounting, and include tests of your accounting records and other procedures that we consider necessary to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our tests and procedures provide a reasonable basis for our report.

The purpose of this report is to identify those processes and controls which are considered to have weaknesses in their design or operation. These controls are not considered to be either a material weakness or a significant deficiency,¹ however, we believe that they warrant the Community Service Association management's attention.

Internal Control Weaknesses and Deficiencies Identified

CSA exceeded the earmark for the combined grants and operating expenses for fiscal year 2015 FY-15) and FY-16 mandated by the organization's by-laws.

Criteria: The By-Laws of the Community Service Association, Article X, Section 4.c., states

1. *"Eighty eight percent (88%) of said total Common Fund as received shall be earmarked for disbursement, and shall be disbursed, as is consistent with these articles of incorporation, to any corporation, trust, association, community chest, fund or foundation organized not for profit and operated solely for charitable,*

¹ 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, detect, and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial operations and reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

scientific, literary or educational purposes or for the prevention of cruelty to children or animals, or as a contribution to assist in the relief of any civilian disaster or calamity provided such contribution is within the scope of section 23 of the Internal Revenue Code: and

2. A portion (12%) of said total Common Fund shall be earmarked as a contingency for expenses of operation and audit.

Condition: In FY-15 and FY-16 CSA did not comply with the grant award and expenditure limitations imposed by the by-laws of 88 and 12 percent of total revenues, respectively. CSA over awarded \$8,081 for grants (see Table 1) and over expended \$9,370 for operational costs (see Table 2). Table 3 provides a summary of the amounts over awarded and expended for the two fiscal years.

Table 1: Percentage of Grant distribution to Revenue

Description	FY-15		FY-16		Total	
Total Revenue	100%	\$159,003.00	100%	\$153,788.00	100%	\$312,791.00
Actual Grants Percentage	92%	146,351.00	89%	136,986.00	91%	283,337.00
Percentage per by-laws	88%	139,923.00	88%	135,333.00	88%	275,256.00
Difference	4%	\$ 6,428.00	1%	\$ 1,653.00	3%	\$ 8,081.00

Source: OIA analysis

Table 2: Percentage of Expenses to Revenue

Description	FY-15		FY-16		Total	
Total Revenue	100%	\$159,003.00	100%	\$153,788.00	100%	\$312,791.00
Actual Expenses	15%	22,946.00	16%	23,959.00	15%	46,905.00
Percentage per by-laws	12%	19,080.00	12%	18,455.00	12%	37,535.00
Difference	3%	\$ 3,866.00	3%	\$ 5,504.00	3%	\$ 9,370.00

Source: OIA analysis

Table 3: Excess Grant Distributions and Expenses

Description	2014/2015		2015/2016		Total	
Grants	4%	6,428.00	3%	1,653.00	3%	\$ 8,081.00
Expenses	3%	3,866.00	3%	5,504.00	3%	9,370.00
Total difference	7%	10,294.00	6%	7,157.00	6%	\$17,451.00

Source: OIA analysis

Effect: As a result of the over award of grants and over expenditure of operating costs, CSA reduced its net asset position by \$17,451 from \$178,066 to \$160,615.²

The Form 990-EZ, Income Tax Returns filed to the Internal Revenue Service showed the CSA's net assets as of August 31, 2014 in the amount of \$178,066.00. As of August 31, 2016, the balance decreased to \$160,615.00 due to \$17,451.00 over expenditures or net loss.

² Net asset positions taken from the Form 990-EZ filed with the Internal Revenue Service for fiscal years 2015 and 2016.

Recommendation:

CSA’s Board of Directors and management should be cautious in developing their yearly budget for grant allocations and operating expenses to avoid violating the by-laws and incurring additional operating deficits. As of 31 August 31 2016, CSA’s net asset position was \$159,637, including \$154,161 of contributions received from 1 September 2015 to 31 August 2016, and earmarked for disbursements for fiscal year 2017 (FY-17), resulting in a balance of \$5,476.00.

To avoid incurring an operating deficit for FY-17, OIA recommends that the total grant distributions and operating expenses for FY-17, should not exceed the \$154,161.00 contributions received during FY-16.

Checking account book balance did not agree with the bank reconciliation report.

Criteria: The checking account book balance should be reconciled monthly with the bank statement. Corrections made after the completion of the reconciliation process should be recorded through a journal voucher with the explanation of the corrections or adjustments.

Condition: The review of the bank reconciliation revealed that the checking account balance was different from the reconciled balance for several months as follows.

Table 4: Analysis of Differences between Accounting Records and Bank Reconciliations

Month	Per Books	Per Bank Reconciliation	Difference
September 2016	165,350.45	165,270.86	79.59
October 2016	162,326.25	162,246.66	79.59
November 2016	22,780.54	22,340.95	439.59
December 2016	19,882.93	19,493.34	389.59
January 2017	15,628.63	15,239.04	389.59
February 2017	29,695.26	29,305.67	389.59
March 2017	12,989.45	12,599.86	389.59
April 2017	10,702.57	10,312.98	389.59
May 2017	9,660.02	9,660.15	(0.13)

Source: OIA analysis

Cause: Three outstanding checks are voided after completing the reconciliation directly in the register without preparing a journal voucher and interest of \$0.41 from prior year was not recorded until June 2016.

Effect: The voiding of checks directly in the register after reconciliation increases the balance of the account from the month checks were voided to the succeeding month balances. As a result, the new balance, in the accounting system, did not agree with the reconciled balance.

Recommendation:

Any corrections or adjustments made directly in the account affecting previous month transactions will change succeeding balances without any audit trail or explanation.

Checks issued in the previous months that need to be voided, should be supported by a journal voucher indicating the reason for the adjustment. The journal voucher should debit the amount of the check to the checking account and credit to the corresponding account where the check was originally charged.

Expenses are not classified to the proper accounts.

Criteria: It is important that financial accounts are accurate and up to date. Keeping good accounting records saves time in preparing tax returns, and in tracking expenditures.

Condition: The payroll expenses included \$1,087.23 laptop, and \$248.06 ink cartridges totaling \$1,335.29.

Effect: The salary expenses totaling \$21,335.29 recorded in the books are overstated by \$1,335.29.

Recommendation: Office supplies and equipment should not be classified as salary expense.

A laptop that cost \$1,087.23 was charged to expense.

Criteria: It is important that financial accounts are accurate and up to date. Keeping good accounting records saves time in preparing tax returns, and in tracking expenditures.

Condition: CSA purchased a laptop with a cost of \$1,087, and recorded the cost in the accounting records as a payroll expense. In preparing the FY-16 income tax returns the CSA accountant reclassified the laptop as a depreciable asset. As of 31 August 2016, the stated value of the laptop was \$978.00.

Effect: The CSA's financial statements did not match with income tax returns.

Recommendation:

CSA should have a policy when to capitalize or expense a property that had a useful life of more than one year.

The CSA management should disclose any difference between the financial statements and the income tax returns.

The schedule of 2014/2015 Board and Individual Designations totaling \$136,051.32 did not match with the amount recorded in the books.

Criteria: Supplementary schedules or subsidiary ledgers should match with the control account.

Condition: Comparison of the schedule of Board and Individual Designations to the Grant and Individual Distribution accounts recorded in the books showed a net difference of \$935.00.

Table 6: Analysis of Designation Account and Subsidiary Ledger

	Board Designation	Individual Designation	Total
Per Financial Statements	\$119,019	\$17,967	\$136,986
Per Schedule	113,789	22,262	136,051
Difference – Over (Short)	\$ 5,230	\$ (4,295.00)	\$ 935

Source: OIA analysis

Cause: We believe the cause of the differences were misclassification of board grants as individual designated funds and vice versa when recording the transactions; and grants given to six organizations were not included in the schedule.

Effect: The schedule of Board and Individual Designations did not reflect the actual list of grantees and the funds disbursed.

Recommendation: CSA management should ensure that the schedule of Board and Individual Designations agrees with the control account.

Interest income was not recorded in a timely manner.

Criteria: Interest income should be recorded at the month it was received.

Condition: As of 31 August 2016, the savings account balance per books was \$5.33 while the bank statement showed \$17.58, a difference of interest income of \$12.25 received in April and July that was not recorded until October 2016.

Effect: The book balance of the savings account does not agree with the bank balance in proper period.

Recommendation: Interest income should be recorded in the month it was earned.

Office of Internal Audit

Office of Internal Audit
1 June 2017



TO: John M. Cashmon
Director, Internal Audit

FROM: Jim Felix, Chairperson
Barbara Asaro, Secretary/Treasurer
Community Service Association

DATE: May 26, 2017

SUBJECT: DRAFT REPORT NUMBER 7-12 – *COMMUNITY SERVICE ASSOCIATION:
Review of Fiscal Year 2016 Financial Schedules*

Thank you for providing a copy of draft report Number 17-12 (Community Service Association: Review of Fiscal Year 2016 Financial Schedules). We appreciated the exit conference with you and Jaime Buensuceso to review the findings, and for the opportunity to respond to the recommendations. It is our understanding that our response as outlined in this memorandum will be included as an appendix to the report.

Recommendation One:

CSA's Board of Directors and management should be cautious in developing their yearly budget for grant allocations and operating expenses to avoid violating the by-laws and incurring additional operating deficits. As of 31 August 2016, CSA's net asset position was \$159,637, including \$154,161 of contributions received from 1 September 2015 to 31 August 2016, and earmarked for disbursements for fiscal year 2017 (FY 2017), resulting in a balance of \$5,476.00.

To avoid incurring an operating deficit for FY 17, OIA recommends that the total grant distributions and operating expenses for FY 17 should not exceed the \$154,161.00 contributions received during FY 16.

Response: We concur with the recommendation. It is been past practice to typically "carryover" several thousand dollars into the next fiscal year for the purpose of donating these funds to homeless shelters and food banks during the winter holiday season. We understand this does affect the balance of the previous fiscal year. Employee contributions have steadily decreased over the past several years. However, the cost of doing business remains the same. The Board of Directors is currently in the process of reviewing CSA's by-laws. This review may result in a change of the percentage of funding that should be earmarked for disbursement (currently 88%).

Recommendation Two:

Any corrections or adjustments made directly in the account affecting previous month transactions will change succeeding balances without any audit trail or explanation.

Response: We concur with this recommendation. Prior to FY 2016-2017, the practice was to enter deposits, corrections, and adjustments in QuickBooks directly to the affected account. However, beginning with FY 2016-2017, journal entries have been utilized to enter deposits, correct checks voided after their month of issue, etc.

Recommendation Three:

Office supplies and equipment should not be classified as salary expense.

Response: We concur with this recommendation. We acknowledge there have been errors made concerning classifications of expenses within QuickBooks. Attention and care are now being taken to avoid these oversights.

Recommendation Four:

CSA should have a policy when to capitalize or expense a property that had a useful life of more than one year.

The CSA management should disclose any difference between the financial statements and the income tax returns.

Response: We concur with this recommendation. We will put into place a policy for capitalizing or expensing a property that has a useful life beyond one year, i.e., the CSA laptop. We will disclose any difference between the financial statements and the income tax returns due to amortization of property, etc.

Recommendation Five:

CSA management should ensure that the schedule of Board (Grant Awards) and Individual Designations agrees with the control account.

Response: We concur with this recommendation. We are compelled to note that there are disbursements made that do not fall under the classifications of grant awards or designated donations. These disbursements include holiday gifts to local non-profits that serve the homeless and others in need, donations to non-profits made on behalf of Board members who have completed their terms of office, etc. Beginning with the SY 2016-2017, funds distributed for purposes not directly related to grant making or designated donations will be included on the list of grantees and funds disbursed.

Memo to Cashmon
May 26, 2017
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Recommendation Six:

Interest income should be recorded at the month it was received.

Response: We concur with this recommendation and have already taken steps to remedy the issue. Beginning with the SY 2016-2017, interest income has been recorded in the month it was earned through the journal entry process.