Big Brothers Big Sisters of America

# Audited Financial Statements

For the Fiscal Years ended June 30, 2014 and June 30, 2013

# BIG BROTHERS BIG SISTERS OF AMERICA

## FINANCIAL STATEMENTS

June 30, 2014 and 2013

BIG BROTHERS BIG SISTERS OF AMERICA

FINANCIAL STATEMENTS

June 30, 2014 and 2013

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Big Brothers Big Sisters of America

## Report on the Financial Statements

We have audited the accompanying financial statements of Big Brothers Big Sisters of America (the Organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Brothers Big Sisters of America as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

***Emphasis of Matter***

As discussed in Note 2 to the financial statements, the Organization is the subject of an ongoing government audit and investigation, which has and may continue to impact the liquidity of the Organization. Our opinion is not modified with respect to this matter.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards,* we have also issued our report dated July 21, 2015 on our consideration of Big Brothers Big Sisters of America's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Brothers Big Sisters of America's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
July 21, 2015

BIG BROTHERS BIG SISTERS OF AMERICA
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 6,011,545 | $ 2,888,250 |
| Accounts receivable from affiliated agencies (net of allowance for doubtful accounts of $129,368 and $80,573, respectively) | 1,280,734 | 1,238,304 |
| Contributions receivable (net of allowance of $85,087 and $81,692, respectively) (Note 4) | 3,318,590 | 3,359,077 |
| Prepaid expenses and other assets | 94,020 | 286,593 |
| Property and equipment (Note 7) | 585,576 | 770,006 |
| Investments (Note 5) | 306,522 | 3,170,252 |
| Endowment investments | 229,500 | 229,270 |
| Total assets | $ 11,826,487 | $ 11,941,752 |
| **LIABILITIES AND NET ASSETS** | | |
| Notes Payable | $ 1,375,000 | $ - |
| Grant payable to local agencies | 3,585,170 | 3,140,134 |
| Deferred revenue | 1,878,415 | 1,855,941 |
| Grant reserve (Note 2) | 1,297,475 | 1,297,475 |
| Accounts payable and accrued expenses | 1,480,732 | 2,385,667 |
| Total liabilities | 9,616,792 | 8,679,217 |
| Net assets (Note 3) | | |
| Unrestricted | $ (2,410,750) | $ (911,378) |
| Temporarily restricted | 4,390,945 | 3,944,643 |
| Permanently restricted | 229,500 | 229,270 |
| Total net assets | 2,209,695 | 3,262,535 |
| Total liabilities and net assets | $ 11,826,487 | $ 11,941,752 |

See accompanying notes to financial statements.

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Public Support and Revenues** | | | | |
| Public support | | | | |
| Contributions and grants | $ 16,071,164 | $ 4,575,524 | $ - | $ 20,646,688 |
| Government funding | 804,390 | - | - | 804,390 |
| | 16,875,554 | 4,575,524 | - | 21,451,078 |
| Revenues | | | | |
| Memberships | 3,536,605 | - | - | 3,536,605 |
| Investment income | (14,153) | 9,066 | 230 | (4,857) |
| Other income | 2,746,149 | - | - | 2,746,149 |
| | 6,268,601 | 9,066 | 230 | 6,277,897 |
| Net assets released from restrictions | | | | |
| Satisfaction of program restrictions | 4,138,288 | (4,138,288) | - | - |
| Total public support and revenues | 27,282,443 | 446,302 | 230 | 27,728,975 |
| **Expenses** | | | | |
| Program services | | | | |
| Program development | 8,311,366 | - | - | 8,311,366 |
| Agency development | 5,444,577 | - | - | 5,444,577 |
| Brand development | 8,340,177 | - | - | 8,340,177 |
| | 22,096,120 | - | - | 22,096,120 |
| Support services | | | | |
| Management and general | 5,540,829 | - | - | 5,540,829 |
| Fundraising | 1,144,866 | - | - | 1,144,866 |
| | 6,685,695 | - | - | 6,685,695 |
| Total expenses | 28,781,815 | - | - | 28,781,815 |
| **Change in net assets** | (1,499,372) | 446,302 | 230 | (1,052,840) |
| Net assets, beginning of year | (911,378) | 3,944,643 | 229,270 | 3,262,535 |
| **Net assets, end of year** | $ (2,410,750) | $ 4,390,945 | $ 229,500 | $ 2,209,695 |

See accompanying notes to financial statements.

BIG BROTHERS BIG SISTERS OF AMERICA
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Public Support and Revenues** | | | | |
| Public support | | | | |
| Contributions and grants | $ 8,248,949 | $ 7,390,077 | $ - | $ 15,639,026 |
| Government funding | 5,270,722 | - | - | 5,270,722 |
| | 13,519,671 | 7,390,077 | - | 20,909,748 |
| Revenues | | | | |
| Memberships | 3,669,566 | - | - | 3,669,566 |
| Investment income | 69,093 | 654 | - | 69,747 |
| Other income | 222,167 | - | 210 | 222,377 |
| | 3,960,826 | 654 | 210 | 3,961,690 |
| Net assets released from restrictions | | | | |
| Satisfaction of program restrictions | 8,428,536 | (8,413,652) | (14,884) | - |
| Total public support and revenues | 25,909,033 | (1,022,921) | (14,674) | 24,871,438 |
| Expenses | | | | |
| Program services | | | | |
| Program development | 9,886,377 | - | - | 9,886,377 |
| Agency development | 9,630,132 | - | - | 9,630,132 |
| Brand development | 4,490,634 | - | - | 4,490,634 |
| | 24,007,143 | - | - | 24,007,143 |
| Support services | | | | |
| Management and general | 4,435,767 | - | - | 4,435,767 |
| Fundraising | 1,522,384 | - | - | 1,522,384 |
| | 5,958,151 | - | - | 5,958,151 |
| Total expenses | 29,965,294 | - | - | 29,965,294 |
| Change in net assets | (4,056,261) | (1,022,921) | (14,674) | (5,093,856) |
| Net assets, beginning of year | 3,144,883 | 4,967,564 | 243,944 | 8,356,391 |
| Net assets, end of year | $ (911,378) | $ 3,944,643 | $ 229,270 | $ 3,262,535 |

See accompanying notes to financial statements.

BIG BROTHERS BIG SISTERS OF AMERICA
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ (1,052,840) | $ (5,093,856) |
| Adjustments to reconcile change in net asset to net cash provided by operating activities: | | |
| Depreciation | 211,640 | 241,050 |
| Bad debt expense | 227,633 | 199,414 |
| Net loss on disposal of assets | 422,016 | - |
| Net realized loss on investment | 23,919 | - |
| Discount on contribution receivables | 39,715 | - |
| Decrease (increase) in asset: | | |
| Accounts receivable | (184,976) | 63,323 |
| Contributions receivable | (84,315) | (2,380,074) |
| Prepaid expenses and other assets | 192,573 | (124,120) |
| Other current assets | - | - |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | (904,935) | 1,343,971 |
| Grants payable to local agencies | 445,036 | 2,585,881 |
| Grant reserve | - | (675,950) |
| Deferred revenue | 22,474 | (62,516) |
| Net cash used in operating activities | (642,060) | (3,902,877) |
| Cash flows from investing activities | | |
| Purchases of equipment | (74,226) | (64,159) |
| Net proceeds of investments | 2,839,581 | 4,250,644 |
| Net cash from investing activities | 2,765,355 | 4,186,485 |
| Cash flows from financing activities | | |
| Borrowing on credit line payable | 1,000,000 | - |
| Net cash from financing activities | 1,000,000 | - |
| **Net increase in cash and cash equivalents** | 3,123,295 | 283,608 |
| Cash and cash equivalents | | |
| Beginning of the year | 2,888,250 | 2,604,642 |
| **End of the year** | $ 6,011,545 | $ 2,888,250 |

**Noncash investing activities:**

| | | |
|---|---|---|
| Promissory note issues in accordance with lease option | $ 375,000 | $ - |

See accompanying notes to financial statements.

BIG BROTHERS BIG SISTERS OF AMERICA
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2014

| | Program Development | Agency Development | Brand Development | Total Program Services | Supporting Management & General | Services Fund Raising | Total Support Services | Total |
|---|---|---|---|---|---|---|---|---|
| Salaries and wages | $ 2,994,248 | $ 1,478,638 | $ 1,008,669 | $ 5,481,555 | $ 627,228 | $ 517,718 | $ 1,144,946 | $ 6,626,501 |
| Payroll taxes | 258,237 | 127,524 | 86,992 | 472,753 | 54,095 | 44,650 | 98,745 | 571,498 |
| Employee pension | 2,159 | 1,066 | 727 | 3,952 | 452 | 373 | 825 | 4,777 |
| Insurance benefits | 253,607 | 125,238 | 85,432 | 464,277 | 53,125 | 43,850 | 96,975 | 561,252 |
| Grants to local agencies | 2,412,349 | 2,412,349 | - | 4,824,698 | - | - | - | 4,824,698 |
| Professional services | 942,410 | 358,804 | 6,640,276 | 7,941,490 | 3,813,959 | 261,276 | 4,075,235 | 12,016,725 |
| Telephone, postage and shipping | 92,113 | 80,002 | 39,444 | 211,559 | 10,966 | 12,495 | 23,461 | 235,020 |
| Occupancy and maintenance | 116,429 | 101,121 | 49,857 | 267,407 | 13,861 | 15,793 | 29,654 | 297,061 |
| Printing, publications and promotions | 26,546 | 23,056 | 11,367 | 60,969 | 3,160 | 3,601 | 6,761 | 67,730 |
| Conferences, travel and events | 196,855 | 234,847 | 75,014 | 506,716 | 751,068 | 69,368 | 820,436 | 1,327,152 |
| Insurance | 110,099 | 54,370 | 37,089 | 201,558 | 23,063 | 19,037 | 42,100 | 243,658 |
| Leases | 34,170 | 16,874 | 11,511 | 62,555 | 7,158 | 5,908 | 13,066 | 75,621 |
| Depreciation | 95,631 | 47,225 | 32,215 | 175,071 | 20,033 | 16,535 | 36,568 | 211,639 |
| Other | 776,513 | 383,463 | 261,584 | 1,421,560 | 162,661 | 134,262 | 296,923 | 1,718,483 |
| | $ 8,311,366 | $ 5,444,577 | $ 8,340,177 | $ 22,096,120 | $ 5,540,829 | $ 1,144,866 | $ 6,685,695 | $ 28,781,815 |

See accompanying notes to financial statements.

BIG BROTHERS BIG SISTERS OF AMERICA
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2013

| | Program Development | Agency Development | Brand Development | Total Program Services | Supporting Management & General | Services Fund Raising | Total Support Services | Total |
|---|---|---|---|---|---|---|---|---|
| Salaries and wages | $ 2,300,678 | $ 2,781,817 | $ 1,226,481 | $ 6,308,976 | $ 561,385 | $ 739,022 | $ 1,300,407 | $ 7,609,383 |
| Payroll taxes | 219,400 | 265,283 | 116,961 | 601,644 | 53,535 | 70,475 | 124,010 | 725,654 |
| Employee pension | 37,533 | 45,382 | 20,009 | 102,924 | 9,158 | 12,055 | 21,213 | 124,137 |
| Insurance benefits | 174,595 | 211,108 | 93,076 | 478,779 | 42,603 | 56,083 | 98,686 | 577,465 |
| Grants to local agencies | 5,032,911 | 5,032,911 | - | 10,065,822 | - | - | - | 10,065,822 |
| Professional services | 1,386,400 | 73,261 | 2,669,243 | 4,128,904 | 2,620,314 | 407,674 | 3,027,988 | 7,156,892 |
| Telephone, postage and shipping | 84,629 | 102,349 | 45,138 | 232,116 | 20,653 | 27,189 | 47,842 | 279,958 |
| Occupancy and maintenance | 73,132 | 88,446 | 38,997 | 200,575 | 17,848 | 23,495 | 41,343 | 241,918 |
| Printing, publications and promotions | 22,410 | 27,102 | 11,950 | 61,462 | 5,469 | 7,200 | 12,669 | 74,131 |
| Conferences, travel and events | 288,344 | 680,356 | 126,752 | 1,095,452 | 948,394 | 93,621 | 1,042,015 | 2,137,467 |
| Insurance | 33,111 | 40,044 | 17,656 | 90,811 | 8,081 | 10,638 | 18,719 | 109,530 |
| Leases | 17,632 | 21,324 | 9,402 | 48,358 | 4,303 | 5,665 | 9,968 | 58,326 |
| Depreciation | 72,870 | 88,128 | 38,857 | 199,855 | 17,784 | 23,411 | 41,195 | 241,050 |
| Other | 142,732 | 172,621 | 76,112 | 391,465 | 126,240 | 45,856 | 172,096 | 563,561 |
| | $ 9,886,377 | $ 9,630,132 | $ 4,490,634 | $ 24,007,143 | $ 4,435,767 | $ 1,522,384 | $ 5,958,151 | $ 29,965,294 |

See accompanying notes to financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization: Big Brothers Big Sisters of America ("the Organization" or "BBBSA") is the nation's premier mentoring organization. The Organization's vision is that all children achieve success in life. The Organization's mission is to provide children facing adversity with strong and enduring, professionally supported 1-to-1 relationships that change their lives for the better, forever. The Organization and its staff partner with parents/guardians, volunteers and others in the community and holds itself accountable for the program achieving:

- Higher aspirations, greater confidence, and better relationships
- Avoidance of risky behaviors
- Educational success

The Organization works closely with Big Brothers Big Sisters agencies ("local affiliates" or "affiliated agencies") throughout the country to implement its programs. These agencies are separate legal entities, which are not controlled by the Organization, and are therefore not consolidated within the Organization's financial statements.

On February 1, 2015, BBBSA relocated its national headquarters from Irving, Texas to Tampa, Florida. Operations were fully effective by March 2015.

Basis of Presentation: The financial statements have been prepared on the accrual basis of accounting. Financial statement presentation follows FASB ASC 958, *Not-for-Profit Entities.* Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

In accordance with FASB ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions, including unconditional promises to give, are recorded at fair value when received. Multi-year contributions are recorded at their estimated net present value using appropriate discount rates at the date of receipt.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Management's Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates based on management's knowledge and experience. Accordingly, actual results could differ from those estimates.

Investments: The Organization carries investments in marketable securities at fair value. FASB ASC 820-10 establishes a framework for measuring fair value and expands disclosures about fair value measurements. For Level 1 investments, fair values are based upon quoted values for identical investments in active markets. For Level 2 investments, fair value is determined by unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable. For Level 3 investments, fair value is based primarily upon estimates and other inputs that are not freely available.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property and Equipment and Depreciation: Property and equipment are recorded at cost. Depreciation of property and equipment has been provided for on a consistent basis over the estimated useful lives of the various assets using the straight-line method. Expenditures for repairs and maintenance are charged to current operations. Donated property and equipment are recorded at fair market value, if determinable, and depreciated in the same manner as purchased property and equipment. The estimated useful lives of the assets are as follows:

| | |
|---|---|
| Building improvements | 7 to 50 years |
| Furniture and equipment | 3 to 7 years |

Income Tax Status: The Organization qualifies as a tax-exempt organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provisions for federal or state income taxes.

Management has performed an evaluation and concluded that there are no material unrecognized tax positions as of June 30, 2014 and 2013.

Membership Fees: Membership fees, which are based on a percentage of the affiliated agencies' annual expenditures, are recorded as income when earned. Fees that have been billed but not yet earned are shown as deferred revenue on the statement of financial position. Accounts receivable from affiliated agencies are monitored and an allowance is established where appropriate for doubtful accounts. Periodically, management reviews membership fees and records an allowance for specific members based on current circumstances and charges off the receivable against the allowance when all attempts to collect the membership fees have failed.

Contributions: Gifts of cash and other assets, including unconditional promises to give cash and other assets, are reported at fair value at the date the assets or promise are received. They are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Temporarily restricted contributions which are both received and released within the same year are recorded as an increase in temporarily restricted net assets and as a satisfaction of program restrictions. Contributions receivable are monitored and an allowance is established where appropriate for doubtful accounts. Periodically, management reviews contributions and records an allowance for specific donors based on current circumstances and charges off the receivable against the allowance when all attempts to collect the contributions have failed.

Grants to Local Agencies: The Organization awards grants to the local agencies as part of its goal of enhancing program development and field services with the local affiliates. The grants are recorded as expense and liability when the related costs are incurred at the local agency according to the respective agreement. The grants are funded by both restricted and unrestricted contributions. The grants to local agencies are due in less than one year.

Cash and Cash Equivalents: For the purpose of the statement of cash flows, the Organization considers all money market funds and certificates of deposit with original maturities of less than ninety days to be cash equivalents.

In-Kind Contributions: The Organization recognizes contributed services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the twelve months ended June 30, 2014 and 2013, the Organization recognized revenues for contributed legal services of $619,078 and $517,683. An equal and offsetting expense was recognized within Support Services expense (management

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

and general support). A substantial number of volunteers donated significant amounts of their time to assist in the Organization's program services. This time was not recognized as revenue since it did not relate to specialized skills. The fair value of the unrecognized contributed services cannot practicably be calculated.

The Organization records the value of contributed goods when there is an objective basis available to measure their value and is reflected as revenue in the accompanying statements at their estimated values at the date of receipt. The Organization received $6,528,496 and $2,460,000 in 2014 and 2013, respectively, of contributed advertising time to promote its mission. In accordance with ASC 958-605 "Revenue Recognition", these services were recognized as revenue, with an offsetting expense recognized within Program Services expenses (brand development). There were no other contributed goods during the twelve months ended June 30, 2014 and 2013.

Endowment Investments: As of June 30, 2014 and 2013 the Organization has $229,500 and $229,270, respectively, in endowment assets that are restricted by donors. The Organization endowment funds are invested in money market funds with consistent levels of return.

The income from endowment funds are used to fund awards given to local agencies at the Organization's annual national conference.

Government Funding: The Organization receives grant revenue from governmental sources. Government grant revenue is recognized as related costs are incurred. The Organization negotiates its federal indirect rate with the relevant federal agency. Indirect costs recovered on federally sponsored programs are generally based on predetermined reimbursement rate which are stated as a percentage of direct costs incurred. The Organization is subject to audit by government bodies providing grants. Retroactive adjustments are accrued on an estimated basis in the period the related services are delivered and adjusted in future periods as final settlements are determined or as years are no longer subject to such audits, reviews and investigations. See Note 2.

Subsequent Events: Subsequent events have been evaluated through July 21, 2015, the date that the financial statements were available to be issued.

**NOTE 2 - GOVERNMENT INVESTIGATION AND RELATED OPERATING MATTERS**

On March 31, 2014, BBBSA replaced its previous CEO, who had served from June 2012 through March 30, 2014, with a new CEO. On April 24, 2014, BBBSA hired a new CFO.

In August 2012, the Audit Division of the Department of Justice Office of the Inspector General (“DOJ OIG”) audited three Office of Justice Programs (“OJP”) grants awarded to BBBSA for fiscal years 2009-2011 (the “Audited Grants”). In February 2013, OJP froze all Audited Grants funds. In an audit report issued in June 2013, the DOJ OIG, questioned approximately $19.5 million in funds awarded to BBBSA under these grants. Following receipt of a draft of this report in April 2013, BBBSA retained outside counsel to assist it in addressing the recommendations issued by DOJ OIG, including, among other tasks, conducting a forensic review to determine the extent to which BBBSA and its subrecipients incurred supported and allowable expenditures under the Audited Grants, as well as creating and documenting policies and procedures to implement the financial and grant-related controls required by the DOJ OIG’s recommendations.

(Continued)

**NOTE 2 - GOVERNMENT INVESTIGATION AND RELATED OPERATING MATTERS** (Continued)

The forensic accountants completed their report of 20 of the 105 subrecipients in February 2014, and concluded that, aggregating the three Audited Grants, BBBSA and the subrecipient sample tested were able to demonstrate that they made expenditures on allowable and grant-eligible activities in excess of the corresponding funds received to date as part of the Audited Grants. OJP then requested a more comprehensive accounting of all subrecipient and national office expenditures. BBSA completed this work and submitted it to OJP in March, 2015.

On March 31, 2014, the Department of Justice (“DOJ”) contacted outside counsel for BBBSA to indicate that it had opened an investigation related to BBBSA expenditures pursuant to grant awards 2009-TY-FX-0047, 2010-JU-FX-005 and 2011-MU-MU-0017 (the “Audited Grants”). Based upon the BBBSA’s lack of knowledge regarding any fraud or misuse of assets in connection with the Audited Grants, as well as the findings of the forensic audit review, BBBSA had not initiated any internal investigation related to potential fraud or misuse of assets related to the Audited Grants in advance of the DOJ Investigation. BBBSA has been responsive to requests for information from the DOJ and continue to work cooperatively towards resolution with OJP and DOJ.

Based on the comprehensive report submitted to OJP by BBBSA management in March, 2015, management has recorded an accrued grant reserve of approximately $1,297,745 as of June 30, 2014 and 2013 for potential resolution of this matter. This figure represents management’s best estimate at this point in time of a probable resolution of this matter with the DOJ OIG. However, the ultimate resolution of these matters is unknown.

Management has reduced expenses through a reduction in workforce, has pursued and recovered insurance proceeds which partially offset the investigation costs that have been incurred subsequent to the issuance of the audit report. Additionally, subsequent to the June 30, 2014 year end BBBSA has received proceeds from the sale of the BBBSA Foundation building for approximately $1,600,000 which previously served as the BBBSA headquarters in Philadelphia.

Since 2014, BBBSA has successfully administered a federal grant through the Department of Labor (“DOL”). DOL removed the Organization’s high risk grantee status in April, 2015.

Additionally, in May 2014, OJP allowed BBBSA to prepare and submit a 90-day budget for the allocation of one of the previously frozen Audited Grants. BBBSA has successfully administered these funds to twelve subrecipients, and has received complete supporting documentation, in accordance with federal guidelines and in compliance with adopted policies and procedures. In April 2015, OJP allowed BBBSA to submit additional 90-day budgets and request additional drawdowns of this grant. In June 2015, the grant period was extended to September 2017 allowing BBBSA to administer the full grant amount.

**NOTE 3 - RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets are available for the following at June 30:

| | 2014 | 2013 |
|---|---|---|
| Program development | $ 1,756,380 | $ 1,617,304 |
| Agency development | 1,888,109 | 1,577,857 |
| Branding program | 746,456 | 749,482 |
| | $ 4,390,945 | $ 3,944,643 |

(Continued)

**NOTE 3 - RESTRICTIONS ON NET ASSETS** (Continued)

Permanently restricted net assets represent endowments that have donor-imposed restrictions which require the principal to remain intact, with the interest earned to be allocated between unrestricted and permanently restricted funds based on the donor stipulation.

**NOTE 4 – CONTRIBUTIONS RECEIVABLE AND GOVERNMENT GRANTS RECEIVABLE**

As of June 30, 2014 and 2013, the Organization recorded promises of funding of $3,358,305 and $3,359,077, respectively. The promises to give are considered fully collectible and consist of the following as of June:

| | 2014 | 2013 |
|---|---|---|
| Less than 1 year | $ 1,929,341 | $ 1,744,039 |
| 1-5 years | 1,514,051 | 1,697,000 |
| | 3,443,392 | 3,441,039 |
| Less: reserve | (85,087) | (81,962) |
| Less: discount | (39,715) | - |
| Total net contributions receivable | $ 3,318,590 | $ 3,359,077 |

The total discount amount as of June 30, 2013 for pledges received in excess of one year did not reflect a material amount of the financials.

**NOTE 5 - INVESTMENTS**

At June 30, 2014 and 2013, investments carried at fair value was the Certificates of Deposit for $306,522 and $3,170,252, respectively.

The total investment gain (loss) for the twelve months ended June 30, 2014 and 2013 was $(4,857) and $69,747, respectively, which consisted of investment income and gain/loss on investments. Certificates of Deposit are scheduled to mature on December 2014, and are recognized as Level 2 investments within the fair value hierarchy. Refer to Note 6 for fair value disclosures.

**NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used by the Organization in estimating fair value of financial instruments.

Cash and Cash Equivalents: The carrying amount of cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

Investments: The fair values for Certificates of Deposit are based on cash maturity values, discounted to present value.

Receivables: Receivables in excess of one year are recognized at the recoverable amount, discounted to present value.

(Continued)

**NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

The carrying amounts and fair values of financial instruments at June 30, are as follows:

| | 2014 | 2013 |
|---|---|---|
| Balance sheet assets | | |
| Cash and cash equivalents | $ 6,011,545 | $ 2,888,250 |
| Investments | $ 306,522 | $ 3,170,252 |
| Endowment investments | $ 229,500 | $ 229,270 |

Fair value measurements are as follows (the carrying amounts of other financial instruments not listed in the table below approximate fair value due to the short-term nature of such items) as of:

June 30, 2014

| | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Assets (Level 2) | Significant Unobservable Assets (Level 3) | Total |
|---|---|---|---|---|
| Certificates of Deposit | $ - | $ 306,522 | $ - | $ 306,522 |
| Money Market Funds | $ - | $ 229,500 | $ - | $ 229,500 |
| | $ - | $ 536,022 | $ - | $ 536,022 |

June 30, 2013

| | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Assets (Level 2) | Significant Unobservable Assets (Level 3) | Total |
|---|---|---|---|---|
| Certificates of Deposit | $ - | $ 3,170,252 | $ - | $ 3,170,252 |
| Money Market Funds | $ - | $ 229,270 | $ - | $ 229,270 |
| | $ - | $ 3,399,522 | $ - | $ 3,399,522 |

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

| | 2014 | 2013 |
|---|---|---|
| Furniture and equipment | $ 612,118 | $ 868,344 |
| Building improvements | - | 525,809 |
| Building purchase option | 375,000 | - |
| | 987,118 | 1,394,153 |
| Less: Accumulated depreciation | 401,542 | 624,147 |
| | $ 585,576 | $ 770,006 |

(Continued)

**NOTE 7 - PROPERTY AND EQUIPMENT** (Continued)

As stated in Note 1, BBBSA relocated its national headquarters from Irving, Texas to Tampa, Florida and at June 30, 2014, there was a building purchase option on the Irving office space lease. Subsequent to year end, there was a decision to end the Irving office space lease and therefore the option will not be exercised. The $375,000 building purchase option asset will be written off in the June 30, 2015 financial statements.

**NOTE 8 – NOTES PAYABLE**

***Line of Credit***
The Organization has a line of credit agreement with TD Bank of $1,000,000. There were borrowings of $1,000,000 against the line on June 30, 2014. The line bears interest at the bank's prime lending rate of 4.25% at June 30, 2014. The BBBSA Foundation has put the Philadelphia office building as collateral for this line of credit. The line is reviewed annually and is due July 31, 2015.

***Promissory Note – Lone Star***
The Organization entered into a $375,000 promissory note with BBBS Lone Star Foundation on October 1, 2013 aspayment for a previously negotiated option to purchase a portion of the building owned by the BBBS Lone Star Foundation located in Irving. The promissory note bears interest at the lesser of The Wall Street Journal prime rate or the maximum legal rate permitted. The note bears interest at the Wall Street Journal prime rate of 3.25% at June 30, 2014.. The note remains outstanding as discussions for a settlement with BBBS Lone Star Foundation are ongoing.

**NOTE 9 - PENSION PLAN**

The Organization normally contributes seven percent (7%) of each eligible employee's salary annually under a defined contribution pension plan covering all full-time employees over age 20-1/2 with six months of continuous service. Eligible employees may elect to invest up to ten percent (10%) of their compensation through payroll deductions. The total pension expense recognized or contributions made for the twelve months ended June 30, 2014 and 2013 was $4,779 and $124,139, respectively. The Organization suspended contributions effective September 30, 2012.

**NOTE 10 - RELATED PARTIES**

The Foundation for Big Brothers Big Sisters of America (Foundation) is organized to support the functions of or carry out the charitable purposes of the Organization. The Foundation was incorporated under the laws of Pennsylvania as a separate nonprofit corporation and has been granted 501(c)(3) status by the Internal Revenue Service.

The Organization leased its headquarters building from the Foundation through October 2013, upon which time the headquarters moved to Irving, Texas, and a new lease was set up with an unrelated party. Rent paid to the Foundation $66,803 and $160,026 for the years ended June 30, 2014 and 2013, respectively. The Foundation contributed $466,803 and $160,326 to the Organization for the years ended June 30, 2014 and 2013, respectively.

As of June 30, 2014 and 2013, the Organization has current receivables, net of reserves, from members of its Board of $215,000 and $667,703, respectively. The Organization recognized revenue of $2,078,463 and $1,312,796 during the twelve months ended June 30, 2014 and 2013, respectively, from its Board.

(Continued)

**NOTE 11 - LEASES**

The Organization leased the headquarters from the Foundation for Big Brothers Big Sisters of America as of June 30, 2013. Effective October 1, 2013, the Organization cancelled its lease, relocated, and entered into a new 5 year lease with minimum annual rent expenses of approximate $197,000 and minimum annual increases of approximately 1.7%. The Organization also leases equipment and other office space under leases which expire from 2013 to 2016. For the twelve months ended June 30, 2014 and 2013, total rental expenses under these leases amounted to $339,761 and $253,746, respectively.

At June 30, 2014, the Organization was obligated under various non-cancellable lease arrangements for Irving office space and equipment as follows:

| | |
|---|---|
| 2015 | $ 206,901 |
| 2016 | 213,924 |
| 2017 | 211,839 |
| 2018 | 52,713 |
| Total future minimum rental payments | $ 685,377 |

Subsequent to June 30, 2014, the Organization was obligated under a non-cancellable lease arrangement for Tampa office space as follows:

| | |
|---|---|
| 2015 | $ 69,450 |
| 2016 | 210,434 |
| 2017 | 216,753 |
| 2018 | 223,262 |
| 2019 | 229,926 |
| Thereafter | 156,309 |
| Total future minimum rental payments | $ 1,106,134 |

The Tampa office space lease is five years and thereafter of in-kind rent expenses only. Actual expenditures will be approximately $70,000 annually. The amounts reflected above are the full value of the lease.

**NOTE 12 - CONCENTRATION OF CREDIT RISK**

The Organization maintains its cash balances in banks located in Pennsylvania. During the year, the Organization may have cash balances in banks in excess of the Federal Deposit Insurance Corporation limit. As of June 30, 2014 and 2013, the Organization has $6,284,112 and $3,278,965, respectively, of cash and cash equivalents and investments in excess of the Federal Deposit Insurance Corporation limit.

**NOTE 13 - CONTINGENCY**

From time to time, Big Brothers Big Sisters of America has been named as a defendant in civil lawsuits. In management and legal counsel’s opinion, potential exposure not covered by insurance is immaterial.

# BIG BROTHERS BIG SISTERS OF AMERICA

## SINGLE AUDIT REPORT
## June 30, 2014

BIG BROTHERS BIG SISTERS OF AMERICA
Dallas, Texas

SINGLE AUDIT REPORT
June 30, 2014

CONTENTS

## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Big Brother Big Sisters of America:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Big Brothers Big Sisters of America ("BBSA") which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 21, 2015. Our report included an emphasis of a matter paragraph for an ongoing government audit and investigation which has impacted the liquidity of the BBSA.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BBBSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BBBSA's internal control. Accordingly, we do not express an opinion on the effectiveness of BBBSA's internal control.

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 BBBSA'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 attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedules of Findings and Questioned Costs as findings numbered 2014-001 and 2014-002 that we consider to be significant deficiencies.

(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether BBBSA's financial statements are free of 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 and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**BBBSA's Response to Findings**

BBBSA's response to the findings identified in our audit are described in the accompanying Schedules of Finding and Questioned Costs. BBBSA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the BBSA's internal controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
July 21, 2015

Crowe Horwath.

**Crowe Horwath LLP**
Independent Member Crowe Horwath International

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR ITS MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of
Big Brothers Big Sisters of America:

**Report on Compliance for the Major Federal Program**

We have audited Big Brothers Big Sisters of America's ("BBBSA") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on BBSA's major federal program for the year ended June 30, 2014. BBBSA's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance of BBBSA's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about BBBSA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of BBBSA's compliance.

**Opinion on the Major Federal Program**

In our opinion, BBBSA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

(Continued)

**Report on Internal Control Over Compliance**

Management of BBBSA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered BBBSA's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of BBBSA's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of BBBSA as of and for the year ended June 30, 2014, and have issued our report thereon dated July 21, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
July 21, 2015

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Grant Award Number | Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Labor** | | | |
| **Direct award:** | | | |
| Reintegration of Ex-Offenders | 17.270 | PE-24408-13-60-A-42 | 804,390 |

See accompanying notes to the schedule.

## NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Big Brothers Big Sisters of America ("BBSA"). The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some information presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

## NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards has been prepared on an accrual basis of accounting.

## NOTE 3 – SUB-RECIPIENTS

Of the federal expenditures presented in the Schedule, BBSA provided federal awards to sub-recipients as follows:

| Program Title | Federal CFDA Number | Amount Provided to Sub-recipients |
|---|---|---|
| Reintegration of Ex-Offenders | 17.270 | 513,156 |

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

| | | |
|---|---|---|
| Material weakness(es) identified? | ______ Yes | X No |
| Significant deficiency(ies) identified? | X Yes | ______ None Reported |
| Noncompliance material to financial statements noted? | ______ Yes | X No |

***Federal Awards***

Internal Control over major program:

| | | |
|---|---|---|
| Material weakness(es) identified? | ______ Yes | X No |
| Significant deficiency(ies) identified? | ______ Yes | X None Reported |

Type of auditor's report issued on compliance for major program: Unmodified

| | | |
|---|---|---|
| Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? | ______ Yes | X No |

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 17.270 | Reintegration of Ex-Offenders |

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

| | | |
|---|---|---|
| Auditee qualified as low-risk auditee? | ______ Yes | X No |

**Section II - Financial Statement Findings**

**Finding 2014-001: Segregation of Duties and Documentation – Significant Deficiency**

**Criteria:**
Financial statements should be free of material misstatements and accounting controls and policies should be in place and be properly implemented and followed.

**Condition:**
During our internal documentation, corroboration, and testing of controls, numerous deficiencies were found affecting the entity's control activities. We noted the following:

1. There was a lack of documentation of reviews performed on payroll changes, bank reconciliations, and changes to vendor files.

2. Segregation of duties surrounding the preparation and posting of journal entries were not consistently adhered to. In addition, there were numerous entries for which management could not provide documentation, showing the entry was for a proper business purpose.

3. A financial risk assessment was not prepared and/or reviewed. Currently, a financial risk assessment is not developed and implemented within the internal policies of the Organization.

4. During the course of the audit, numerous adjustments were posted to the financial statements to appropriately reflect the account balances'.

**Cause:**
Although during FY '14, BBSA established adopted formalized Financial and Grant Management Policies and was able to display the proper controls which should be in place, inconsistencies in implementing these controls existed throughout the year.

**Effect:**
A lack of proper segregation of duties and documentation of reviews of significant accounting transactions could result in error or fraud and possible misstatement of financial statements.

**Recommendations:**
We recommend that per established policies, proper documentation of reviews and transaction support be implemented and retained to minimize errors and possible misstatements. Specifically, BBSA should:

1. Document all changes to significant accounting transactions and retain support of proper preparation and reviews.

2. Journal entries should be prepared and approved by two knowledgeable people and documentation of such reviews as well as sufficient support for all transactions should be retained.

3. A risk assessment should be formally established to detect and prevent control gaps and necessary improvements in the financial process.

4. Proper reconciliation and review of account balances should be performed in a timely manner so as to avoid post-close adjustments.

**Management's View and Corrective Action Plan:**

During the first half of the 2014 fiscal year, BBBSA experienced turnover of key staff due to the relocated offices from Philadelphia, Pennsylvania to Irving, Texas. Due to this transition in staffing, there were periods in which lack of staff prevented proper implementation of some policies and procedures. In the last quarter of FY14 BBBSA properly staffed and implemented the policies and procedures which effectively segregated accounting duties

**Finding 2014-002: Check Disbursement Process – Significant Deficiency**

**Criteria:**
The disbursement process should exhibit proper controls in place to ensure checks/wires are not issued in error or fraudulently.

**Condition:**
During our accounts payable completion testing of the subsequent check register, we found the following:

1. We requested a copy of all missing checks during a test of completeness of the subsequent check register and were unable to obtain a copy of eight checks, nor were we able to verify if they were voided.

    a. Two checks that were not included in the subsequent check register (listed as missing) were paid out and not voided.

2. We found eleven EFT transactions that were not numbered. Upon further investigation, the EFT numbers to be used were duplicate entries due to human error. The EFT numbers are manually entered and are not system-generated.

The Finance Director scanned the bank statements to ensure that the missing checks above did not clear the bank accounts.

**Cause:**
Although during FY '14, BBSA established adopted formalized Financial and Grant Management Policies and was able to display the proper controls which should be in place, inconsistencies in implementing these controls existed throughout the year.

**Effect:**
The lack of proper controls surrounding the disbursement process (manual and/or systematic) could lead to possible theft and/or the issuance of fraudulent disbursements.

**Recommendations:**
We recommend that the disbursement process should be enhanced to account for all checks/wires in order to minimize errors and possible issuance of fraudulent disbursements. Specifically, BBSA should:

1. Create a voided check log and put controls in place for management review of voided checks.

2. Put controls in place to review payments were properly entered into accounting software.

3. Maintain a number log of EFTs to be referenced to prior to manually entering EFT numbers.

**<u>Management's View and Corrective Action Plan:</u>**

BBBSA currently maintains a voided check log through the accounting system which includes both checks and EFTs. The voided check log from the accounting system will be added to the monthly bank reconciliation as an added procedure.

**Contact information**
For more information or questions concerning findings, please contact Tim Midkiff, Chief Financial Officer for Big Brothers Big Sisters of America at 813-440-3584.

**Section III – Federal Awards Findings and Questioned Costs**

There were no findings for the year ended June 30, 2014.

**Section IV – Prior Year Findings and Questioned Costs**

**<u>Finding 2013-1:</u> Segregation of Duties and Documentation – Material Weakness**

**<u>Criteria:</u>**
Financial statements should be free of material misstatements and accounting controls and policies should be in place and be properly implemented and followed.

**<u>Condition:</u>**
During our documentation, corroboration, testing of reconciliations, and testing of journal entries, we noted the following:

1. Reconciliations prepared lacked evidence of review and as a result, there were numerous adjusting journal entries which were needed to be recorded.
2. There was limited support for general journal entries.
3. There was no evidence regarding the accounting department's segregation of duties surrounding cash deposits, cash disbursements, reconciliations, and journal entries.

**<u>Cause:</u>**
Documented accounting and controls policies were not available and a system of retaining review and support for transactions was not followed.

**<u>Effect:</u>**
Segregation of duties is a key concept of internal controls and creates protection from fraud and errors. In addition, the retention of proper support for all transactions, including journal entries, is necessary to prevent fraud and possible misstatement of financial statements.

**Recommendations:**

1. Reconciliations performed by the preparer should be reviewed by another individual to ensure that all year-end financial statements are accurate in accordance with generally accepted accounting principles.

2. A standard process should be implemented for maintaining documentation supporting journal entries, and all other transactions, including grantor and grantee agreements.

3. Proper segregation of duties requiring someone independent from the preparer to review reconciliations, including bank reconciliations over cash receipts and deposits, as well as journal entries should be implemented and documentation of such should be retained.

**Views of Responsible Officials and Planned Corrective Actions:**

During the first half of the 2014 fiscal year, BBBSA experienced turnover of key staff due to the relocated offices from Philadelphia, Pennsylvania to Irving, Texas. Due to this transition in staffing, there were periods in which lack of staff prevented proper implementation of some policies and procedures. In the last quarter of FY14 BBBSA properly staffed and implemented the policies and procedures which effectively segregated accounting duties

**Status of Prior Year Finding:** Finding remains outstanding as this program no longer exists due to funding being suspended until the Department of Justice concludes its investigation and renders a final verdict.

**Finding 2013-2: Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Period of Availability**

**Impacted Programs:**
Federal Agency: Department of Justice
Program: Juvenile Mentoring Program
CFDA Number: 16.726
Award Numbers: 2010-JU-FX-0005 & 2011-MU-MU-0017
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - February 28, 2013

Federal Agency: Department of Justice
Program: Tribal Youth Program
CFDA Number: 16.731
Award Numbers: 2010-TY-FX-0104 & 2011-TY-FX-0030
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - September 30, 2013

**Criteria:**
OMB Circular A-110 requires recipients of federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Further, Section _.21, states that federal award recipients may charge only allowable costs resulting from obligations incurred during the award period.

OMB Circular A-122, Section A, paragraph 2, requires that costs charged to an award be reasonable for the performance of the award, conform to any limitations or exclusions set forth in Circular A-122 or in the award as to types or amount of cost items, and be adequately documented.

**Condition:**
The organization-wide internal controls were not adequately designed to reasonably ensure compliance with federal laws, regulations and program requirements related to Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Period of Availability.

During our selection of samples to test for this attribute, we noted that most of the costs associated with FY ’13 for both major programs were an effort to adjust previously recorded expenditures to be more consistent with actual costs. Therefore, most of the expenditures tested were a series of correcting journal entries. However, documentation of approvals and support to verify the proper review and allowability of costs for the majority of our sample did not exist at the time the expenditures were incurred.

*Juvenile Mentoring Program*

A total of 60 transactions for this program incurred and adjusted for during FY ’13 were selected for controls and compliance testing. 41 out of the 60 transactions did not have proper, if any support, to display that approvals for each cost were accurately obtained. In addition, for each of these 41 transactions, we were unable to obtain appropriate, if any, support to validate allowability of costs. We were able to obtain payroll certifications for 3 of the payroll periods tested from employees who were with the Organization during FY ’13 which stated that they did work a documented specific amount of hours during the timeframe.

*Tribal Youth Program*

A total of 17 transactions for this program incurred and adjusted for during FY ’13 were selected for controls and compliance testing. 14 out of the 17 transactions did not have proper, if any support, to display that approvals for each cost were accurately obtained. In addition, for each of these 14 transactions, we were unable to obtain appropriate, if any, support to validate allowability of costs.

**Questioned Costs:**

*Juvenile Mentoring Program*

*$2,436,108*

*Tribal Youth Program*

*$233,591*

**Cause:**
OMB Circular A-110 and grant requirements were not consistently followed by the Organization to ensure only allowable costs resulting from obligations incurred during the award period were charged to the grant. Additionally, the organization did not consistently follow OMB Circular A-122 requirements to obtain and maintain records to adequately support expenditures charged to the award.

**Effect:**
This could result in unallowable costs being charged to the award or an inability of the Organization to adequately support the allowability of costs charged to the award.

**Recommendation:**
We recommend that the Organization enhance its internal control policies and procedures to ensure compliance with federal laws, regulations and program requirements related to Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Period of Availability. Specifically, costs charged to the

award should reflect actual expenditures incurred and be supported by documentation that is obtained and reviewed by an individual who is knowledgeable of federal cost and award provisions. Further, documentation should be maintained by the Organization for at least three years after receiving notification from the awarding agency that the award has been financially and programmatically closed.

**Views of Responsible Officials and Planned Corrective Actions:**

Remediated

**Status of Prior Year Finding:** Finding remains outstanding as this program no longer exists due to funding being suspended until the Department of Justice concludes its investigation and renders a final verdict.

**Finding 2013-3: Cash Management**

**Impacted Programs:**
Federal Agency: Department of Justice
Program: Juvenile Mentoring Program
CFDA Number: 16.726
Award Numbers: 2010-JU-FX-0005 & 2011-MU-MU-0017
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - February 28, 2013

Federal Agency: Department of Justice
Program: Tribal Youth Program
CFDA Number: 16.731
Award Numbers: 2010-TY-FX-0104 & 2011-TY-FX-0030
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - September 30, 2013

**Criteria:**
OMB Circular A-110 requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

The 2011 Financial Guide requires the organization to return interest income earned on Federal funds in excess of $250.

**Condition:**
*All Major Programs*
The organization-wide internal controls were not adequately designed to reasonably ensure compliance with federal laws, regulations and program requirements related to Cash Management. In addition, documentation for the majority of the costs incurred by the Organization did not exist at the time expenditures were incurred, as displayed by the allowable cost testing described in Finding 2013-2 above. Therefore, non-compliance with OMB A-110 cash management requirements was noted for FY ’13 expenditures.

**Questioned Costs:**

None

**Cause:**
The organization did not have adequate policies and procedures requiring amounts requested for drawdowns be reviewed for reasonableness and authorized by an appropriate individual.

**Effect:**
This could result in federal reimbursements exceeding actual expenditures incurred by the organization.

**Recommendation:**
We recommend that the organization enhance controls over the drawdown process. Specifically, a drawdown analysis should be prepared each time a draw is requested which specifically denotes which actual expenditures were used to calculate the drawdown request. This analysis should be reviewed for reasonableness by an appropriate individual within the organization in light of the federal program activities. Evidence of review and authorization for each drawdown should be maintained by the organization.

**Views of Responsible Officials and Planned Corrective Actions:**

Remediated

**Status of Prior Year Finding:** Finding remains outstanding as this program no longer exists due to funding being suspended until the Department of Justice concludes its investigation and renders a final verdict.

**Finding 2013-4: Procurement and Suspension and Debarment**

**Impacted Programs:**
Federal Agency: Department of Justice
Program: Juvenile Mentoring Program
CFDA Number: 16.726
Award Numbers: 2010-JU-FX-0005 & 2011-MU-MU-0017
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - February 28, 2013

Federal Agency: Department of Justice
Program: Tribal Youth Program
CFDA Number: 16.731
Award Numbers: 2010-TY-FX-0104 & 2011-TY-FX-0030
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - September 30, 2013

**Criteria:**
OMB Circular A-110, Sections _-41 through _.48 set forth standards for use of award recipients in establishing procedures for the procurement of goods and services with federal funds to ensure they are obtained in an effective manner and in compliance with federal and award provisions. These standards include, but are not limited to, requirements for award recipients to establish written procurement procedures, to ensure procurement transactions are conducted in a manner to provide open and free competition, to enter contracts only with responsible contractors and to maintain procurement records.

The U.S. Department of Justice Guide to Procurement Procedures, Chapter 6, requires informal price or rate quotes be obtained through telephone solicitations, informal written quotations, or blanket purchase agreements from at least three vendors for goods or services whose cost does not exceed $100,000. Adequate supporting documentation such as the vendor names and dates contacted and the quoted amounts and quantities shall be maintained.

**Condition:**

*All Major Programs*

The organization-wide internal controls were not adequately designed to reasonably ensure compliance with federal laws, regulations and program requirements related to procurement and suspension and debarment. Further, documentation of approvals and support to verify the proper review and execution of procurement practices, which are highlighted below, did not exist during FY '13.

- Requirement to maintain contract files that document significant procurement history
- Methods of procurement authorized including selection of contract type, contractor selection or rejection, and the basis of contract price
- Verification that procurements provide full and open competition
- Requirements for cost or price analyses (including for contract modifications)
- Requirements to obtain and react to suspension and debarment certifications
- Requirements that prohibit the award of a subaward, covered contract, or any other covered agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party
- Requirements of the organization to determine for subawards of any value and procurement contracts equal to or exceeding $100,000, that the organization and its principals are not suspended or debarred
- Requirements of the organization to obtain conflict-of-interest statements from individuals responsible for the procurement of goods or services. The 2011 Financial Guide further states that the organization must have a documented process to check for organizational conflicts of interest with potential contractors.
- Required contract provisions

**Questioned Costs:**

None

**Cause:**

Internal controls were not adequately designed to ensure compliance with the provisions of OMB Circular A-no and grant requirements related to procurement. Specifically, the organization did not have formal procedures and/or retained files to verify procurement transactions were conducted in open, free and fair competition, to document its assessment of contractors' performance, to verify that subawards of any value and procurement contracts equal to or exceeding $100,000 were not awarded to suspended or debarred parties and to maintain records supporting procurement transactions.

**Effect:**

This could result in goods and services not being procured in compliance with federal and award provisions.

**Recommendation:**

We recommend that the organization enhance its policies and procedures related to the procurement of goods and services. Specifically, formal procurement procedures that encompass federal and grant award requirements should be implemented and followed by the Organization. Written internal controls should be enhanced to ensure compliance with procurement requirements. Lastly, documentation of all procurement related files and records should be maintained by the organization for at least three years after receiving notification from the awarding agency that the award has been financially and programmatically closed.

**Views of Responsible Officials and Planned Corrective Actions:**

Remediated

**Status of Prior Year Finding:** Finding remains outstanding as this program no longer exists due to funding being suspended until the Department of Justice concludes its investigation and renders a final verdict.

**Finding 2013-5: Program Income**

**Impacted Programs:**
Federal Agency: Department of Justice
Program: Juvenile Mentoring Program
CFDA Number: 16.726
Award Numbers: 2010-JU-FX-0005 & 2011-MU-MU-0017
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - February 28, 2013

Federal Agency: Department of Justice
Program: Tribal Youth Program
CFDA Number: 16.731
Award Numbers: 2010-TY-FX-0104 & 2011-TY-FX-0030
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - September 30, 2013

**Criteria:**
Based on review of the terms and conditions of the grant agreements, the organization is required to report program income earned on FFR reports and the income should be used for grant-related expenditures or returned to the granting agency.

**Condition:**
*All Major Programs*
Documentation of approvals and support to evidence correct reporting of program income to the Department of Justice, did not exist during FY ‘13. The Department of Justice considers a portion of fees charged to subrecipients of the award to represent program income.

**Questioned Costs:**

None
**Cause:**
The Organization did not believe it program generated income.

**Effect:**
The Organization did not track program income to ensure it was used for grant-related expenditures or returned to the Department of Justice.

**Recommendation:**
Management should work with the Department of Justice to determine what constitutes program income to ensure that if program income is generated, the Organization appropriately reports and expends or returns the income.

**Views of Responsible Officials and Planned Corrective Actions:**

Remediated

**Status of Prior Year Finding:** Finding remains outstanding as this program no longer exists due to funding being suspended until the Department of Justice concludes its investigation and renders a final verdict.

**Finding 2013-6: Reporting**

**Impacted Programs:**
Federal Agency: Department of Justice
Program: Juvenile Mentoring Program
CFDA Number: 16.726
Award Numbers: 2010-JU-FX-0005 & 2011-MU-MU-0017
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - February 28, 2013

Federal Agency: Department of Justice
Program: Tribal Youth Program
CFDA Number: 16.731
Award Numbers: 2010-TY-FX-0104 & 2011-TY-FX-0030
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - September 30, 2013

**Criteria:**
OMB Circular A-110, _.51and _.52 set forth standards for use by recipients in establishing reporting procedures. The grant award specifically requires the submission of quarterly financial status reports that reflect actual funds spent and any unpaid obligations incurred through the reporting period.

The Federal Funding Accountability and Transparency Act (FFATA) requires recipients of awards granted on or after October 1, 2010 to report certain information about themselves and their first-tier subrecipients for subawards of $25,000 or more.

**Condition:**
***Financial Reporting***
*All Major Programs*
Due to the fact that documentation for the majority of the costs incurred by the Organization did not exist at the time expenditures were incurred, as displayed by the allowable cost testing described in Finding 2013-2 above, accuracy of and reliability on the reports submitted by the Organization is also not achieved. In addition, documentation of proper preparation and review of the reports did not exist during FY ’13.

**Questioned Costs:**

None
**Cause:**
The Organization did not maintain contemporaneous documentation of actual expenditures. In addition, documentation for the preparation and review of reports was not retained and there were not appropriate controls over reporting to ensure all required reports were identified and submitted timely and accurately.

**Effect:**
The organization is not in compliance with federal grantor reporting requirements for the year ended June 30, 2013.

**Recommendation:**
We recommend that the organization enhance controls over the reporting process. Specifically, reports should reflect actual award activity and the organization should maintain records that support amounts included in reports. Reports should be reviewed by an appropriate individual, other than the preparer, who has requisite knowledge and skills in light of reporting requirements. Procedures should be implemented to ensure all required reports are identified, prepared accurately and appropriately submitted.

**Views of Responsible Officials and Planned Corrective Actions:**

Remediated

**Status of Prior Year Finding:** Finding remains outstanding as this program no longer exists due to funding being suspended until the Department of Justice concludes its investigation and renders a final verdict.

**Finding 2013-7: Subrecipient Monitoring**

**Impacted Programs:**
Federal Agency: Department of Justice
Program: Juvenile Mentoring Program
CFDA Number: 16.726
Award Numbers: 2010-JU-FX-0005 & 2011-MU-MU-0017
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - February 28, 2013

Federal Agency: Department of Justice
Program: Tribal Youth Program
CFDA Number: 16.731
Award Numbers: 2010-TY-FX-0104 & 2011-TY-FX-0030
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - September 30, 2013

**Criteria:**
OMB Circular A-110._.51, Section (a) states that recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in Section__.26.

The 2011 Financial Guide requires subaward agreements to identify federal award information and applicable compliance requirements. The 2011 Financial Guide also requires award recipients ensure subrecipients have a valid DUNS profile no later than the due date of the first quarterly report after a subaward is made.

**Condition:**
The Organization did not have formal policies and procedures for monitoring subrecipients during the award to provide reasonable assurance that subrecipients used federal funding for authorized purposes and complied with laws, regulations, and the provisions of the grant agreement. The Organization did not perform a formal risk assessment, at the onset of the award or periodically, for each subrecipient to which funding was awarded. The Organization did not have formal policies and procedures to ensure subrecipients performed corrective actions included in audit reports and to document this verification. As such, documentation for compliance with subrecipient monitoring requirements did not exist during FY ‘13.

**Questioned Costs:**

None

**Cause:**
OMB Circular A-110 and award requirements were not consistently followed by the organization to ensure subawards were adequate, subrecipients were appropriately monitored and that monitoring procedures were appropriately documented. The organization's policies did not reflect the intended subrecipient monitoring procedures with respect to management's risk assessment process and on- going monitoring. Ultimately communications with subrecipients were not sufficient with respect to the information the organization needed from subrecipients to perform monitoring procedures.

**Effect:**
Lack of appropriate subrecipient monitoring procedures could result in subrecipients charging unallowable costs to the grant award.

**Recommendation:**
We recommend that the organization ensure appropriate monitoring procedures are in place and that those procedures are documented and reviewed. We also recommend that the organization formally document its policies and procedures of the risk assessment process for each subrecipient. Consideration should be given to the upfront risk assessment as well as periodic updates to the risk assessment over the life of the award.

**Views of Responsible Officials and Planned Corrective Actions:**

Remediated

**Status of Prior Year Finding:** Finding remains outstanding as this program no longer exists due to funding being suspended until the Department of Justice concludes its investigation and renders a final verdict.

**Finding 2013-8: Special Tests and Provisions**

**Impacted Programs:**
Federal Agency: Department of Justice
Program: Juvenile Mentoring Program
CFDA Number: 16.726
Award Numbers: 2010-JU-FX-0005 & 2011-MU-MU-0017
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - February 28, 2013

Federal Agency: Department of Justice
Program: Tribal Youth Program
CFDA Number: 16.731
Award Numbers: 2010-TY-FX-0104 & 2011-TY-FX-0030
Award Periods: October 1, 2010 – September 30, 2012 & October 1, 2011 - September 30, 2013

**Criteria:**
In accordance with the grant agreement, successors to key personnel must be approved by the Department of Justice. Changes in other program personnel require notification to OJP and submission of resumes.

**Condition:**
*All Major Programs*
Management did not have written policies and procedures to track personnel changes made after budget approval, to notify the Department of Justice of those changes, or to obtain appropriate approval for such changes.

**Questioned Costs:**

None

**Cause:**
The organization did not have a formal system of notifying the Department of Justice of changes to grant personnel.

**Effect:**
The organization is not in compliance with the federal grantor's requirements over special tests and provisions for the year ended June 30, 2013.

**Recommendation:**
We recommend that the organization implement a system to track changes to grant personnel and notify the Department of Justice in a timely manner as required by the grant award.

**Views of Responsible Officials and Planned Corrective Actions:**

Remediated

**Status of Prior Year Finding:** Finding remains outstanding as this program no longer exists due to funding being suspended until the Department of Justice concludes its investigation and renders a final verdict.

**Part B - Reports of Other Auditors**

The Department of Justice performed an audit of certain federal programs administered by Big Brothers Big Sisters of America and issued their report dated June 2013. Their report included findings in the following areas: overall internal control environment, subrecipient monitoring, documentation of grant expenditures, indirect costs, drawdowns, budget and management control, property, grant reporting, and program income. Please see footnote 2 to the audited financial statements for additional information regarding this matter.