



U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, DC 20416

AUDIT REPORT
Issue Date: July 13, 2004
Report Number: 04-30

TO: Ellen Thrasher
Assistant Administrator for Business and Community Initiatives

FROM: Robert Seabrooks [FOIA Ex. 6]
Assistant Inspector General for Auditing

SUBJECT: Single Audit of Federal Financial Assistance Programs
Service Corps of Retired Executives (SCORE), February 24, 2004

We have completed our initial review of the audit report on SCORE for the year ended September 2003. Based on our initial review, we believe the audit performed by McGladrey & Pullen, Certified Public Accountant(s), meets OMB Circular A-133 reporting requirements.

We are attaching excerpts from the subject audit report pertaining to findings and recommendations for your action in accordance with SOP 20 35, "Audit Follow up System". The auditee has not included a corrective action plan; therefore, you should request that the auditee provide your office with a corrective action for each recommendation. Your office should make a determination that all deficiencies have been corrected. This determination should be in writing, and along with other appropriate documentation, should be available for review by appropriate officials.

Under SOP 20-35, you have a maximum of 80 calendar days from the date of this memorandum to decide on the actions that the agency proposes to take on each audit finding and recommendation and complete the Recommendation Action Sheet (SBA Form 1824) with your management decision. The Office of Inspector General must concur with your management decision before it may be issued as a final determination and is implemented. The SOP prescribes procedures for handling any disagreements this office may have with the proposed management decision. Also please copy us when the audit determination letter is sent to the auditee and include the above audit report number for all correspondence relating to this audit.

If a complete copy of the audit report is needed, or if you have any questions, please contact James E. Foreman at (202) 205- [FOIA Ex. 2] -

Attachments

cc: Jeff Brown, OCFO (w/attachments)

Summary of Findings and Recommendations

Finding 03-1: Some Chapters were required to file Form 990, with the Internal Revenue Service (IRS) and did not file or filed incorrectly.

Auditor's recommendation: We understand that subsequent to this audit, all Chapter returns will no longer be prepared by the volunteers of the Chapters by a qualified accounting firm.

OIG's Response: Management general response to finding was that beginning with year ended September 30, 2003 that SCORE will file a consolidated tax return Form 990 with the IRS.

In accordance with IRS General Instructions for Form 990, the form should be filed by the 15th day of the 5th month after the organization's accounting period ends (February 15, 2004).

We recommend that the Associate Administrator for Business and Community Initiatives (AA/OBCI) determine how many Chapters were required to file Form 990 for the year ended 2003 and if SCORE filed a consolidated form 990 with the IRS.

Finding 03-2: The majority of the chapters have limited accounting review and supervision by the SCORE Association.

Auditor's recommendation: We recommend that management implement written control procedures for the Chapters to follow and that on a periodic and rotation basis, the SCORE Association select various chapters for which to perform internal audit procedures.

OIG's Response: Management general response to finding was that they will work with their audit firm to develop changes to their on-site review process to increase the review of financial data including some level of disbursement testing.

We recommend that the Associate Administrator for Business and Community Initiatives (AA/OBCI) determine if SCORE implemented adequate written control procedures for monitoring and testing of the accuracy of the Chapters financial reporting.

Service Corps Of Retired Executives Association And Affiliates

Schedule Of Findings And Questioned Costs
And Summary Schedule Of Prior Audit Findings (Continued)
Year Ended September 30, 2003

SECTION II - FINANCIAL STATEMENT FINDINGS

COMPLIANCE

Finding 03-1: Tax Return Filing - Chapters

Criteria: In order to comply with federal laws and regulations, all not-for-profit organizations, which receive greater than \$25,000 in receipts, during their fiscal year, are required to file an annual Informational Tax Return, referred to as a Form 990, with the Internal Revenue Service.

Condition: During our testing of a sample of Chapters, it was noted that some Chapters were required to file this return and did not, while the Chapters filed others incorrectly.

Effect: While we acknowledge that the only manpower in most Chapter locations is one or two volunteer individuals, who are not necessarily knowledgeable in the area of tax return preparation, SCORE is at risk of not being in compliance with federal laws governing tax return filing.

Recommendation: We understand that subsequent to this audit, all Chapter returns will no longer be prepared by the volunteers of the Chapters but rather by a qualified accounting firm.

Management's Response: Beginning with the year ended September 30, 2003, SCORE will file a consolidated tax return Form 990 with the Internal Revenue Service for SCORE chapters assuring that we are in compliance with federal laws governing tax return filing. This will also ensure that this finding will not occur again.

MATERIAL WEAKNESS

Finding 03-2: Internal Control - Chapters

Criteria: Internal Control procedures are a vital and basic step to any accounting system. SCORE has 389 chapters located throughout the United States for which there is limited oversight and formal control procedures in place by the SCORE Association.

Condition: Volunteers, most of who do not typically have an accounting expertise or background, carry out the activities of the chapters. On annual basis, the SCORE Association accumulates financial information of all the chapters; however, the appropriateness of the financial transactions are not monitored or reviewed more frequently. As a result, the majority of the chapters have limited accounting review and supervision by the SCORE Association.

Effect: By not having effective oversight or internal audits on a periodic basis, SCORE could have errors in the accounting records of the Chapters, which could go undetected. As a result, management does not have a complete status during the year and therefore, may not always be in a position to make appropriate decisions in a timely manner. Financial statements provide the information needed to enhance management's ability to respond timely and effectively. This is especially important for grants and restricted contributions, which contain very specific restrictions as to the use of the funds.

Service Corps Of Retired Executives Association And Affiliates

Schedule Of Findings And Questioned Costs And Summary Schedule Of Prior Audit Findings (Continued) Year Ended September 30, 2003

Finding 03-2: Internal Control – Chapters (Continued)

Recommendation: We recommend that management implement written control procedures for the Chapters to follow and that on a periodic and rotating basis, the SCORE Association select various Chapters for which to perform internal audit procedures.

Management's Response: In previous years SCORE chapters were regarded as separate by SCORE and treated as separate by our audit firm. In the year ended September 30, 2003, for the first time, revenue and expenses for SCORE's chapters have been included in the audited financial statement of SCORE.

The current controls in place for SCORE chapters are:

Chapters annually submit a Form 3, Chapter Annual Report. This report includes an annual accounting of revenue and expenses for the chapter. Chapters also provide a bank statement reconciled to the ending balance on the Form 3 as of September 30.

The SCORE Operating Manual clearly identifies appropriate uses of appropriated and chapter funds. The operating manual is sent to each chapter annually.

Incoming SCORE Chapter Chairs attend a training and orientation before taking office. This orientation includes sessions on the rules and regulations Chapters must comply with including the uses of funds and reporting requirements.

SCORE chapters have a bi-annual review on a wide variety of subjects including financial oversight.

SCORE management will work with our audit firm to develop changes to our on-site review process to increase the review of financial data including some level of disbursement testing.

SCORE will institute a policy for all chapters to require two signatures on all disbursements of \$2,000 or more.

SCORE will look for other opportunities to improve controls.