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**United States Olympic Committee**  
**Audit Division**



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**Report on:**

**United States Association of Blind Athletes, Inc.**

**Grant Years:**

**2010-2011**

**Dated: July 13, 2012**



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United States Association of Blind Athletes, Inc.

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## EXECUTIVE SUMMARY

### United States Association of Blind Athletes, Inc.

The Audit Division (Audit) of the United States Olympic Committee (USOC) has completed an audit of the finances and management of the United States Association of Blind Athletes, Inc. (USABA). During 2010 and 2011, USABA was awarded \$807,250 through various USOC programs.

USABA received funds to manage the activities and operations of the United States Goalball National Team programs, referred to in this report as Goalball Performance Funding. USABA executed a Paralympic Sport Management Agreement (PSMA) with the USOC which identifies the purpose and requirements of the Goalball Performance funding. USABA received funds through U.S. Paralympics (Paralympics) for the United States Department of Veterans Affairs (VA) U.S. Paralympics Integrated Adaptive Sports Program and the United States Department of Defense (DOD) Paralympic Military Program (Federal Subawards). The chart below identifies the funding awarded to USABA for the 2010 and 2011 calendar years by revenue source:

	<b>2010</b>	<b>2011</b>
Goalball Performance Funding (Cash)	\$ 124,000	\$ 124,000
United Value-in-kind	4,000	4,000
DOD Funding		155,000
Olympic Opportunity Fund Grant (DOD)	25,000	
VA Funding	271,250	100,000
	<u>\$ 424,250</u>	<u>\$ 383,000</u>

USABA materially complied with the requirements of the Federal Subaward Agreements and the PSMA's for the grant periods. This audit identified opportunities for improvement in the areas of USOC grant reports, Federal quarterly reports, compliance with the Subaward Agreements, Federal regulations, IRS regulations, supporting documentation, internal controls, and governance.

#### Goalball Performance Funding

USABA's general ledger does not support the final grant reports. The Goalball expenses were tracked by the Paralympic High Performance Manager on a spreadsheet. The spreadsheet was not reconciled to the general ledger. The general ledger must be used to prepare the final grant reports.

Goalball referees donated their services to USABA to officiate tournaments. USABA recorded the donated services as value in kind (VIK) expenses. The VIK was not reported separately on the final grant reports. If the VIK was reported separately for 2010, it would show that USABA did not spend \$6,971 of USOC funds. The Sport Performance Division is allowing USABA to allocate more expenses to that project for this one instance. In the future, USABA will have to repay unspent USOC funds.

These are identified as high risks.

### Federal Funding

USABA's general ledger does not support the Federal quarterly reports. The Federal Subaward expenses were tracked by the Military Coordinator on a spreadsheet. The spreadsheet was not reconciled to the general ledger. The general ledger must be used to prepare the Federal quarterly reports.

USABA did not spend the VA funds within the approved budget categories or the acceptable percentage thresholds allowable in the Agreement. In total, all the funds were spent for each project. USABA must work with Paralympics personnel to determine if any action is needed to resolve the budget category variances. USABA must obtain the USOC's written approval prior to transferring funds within its approved budget categories.

Supporting documentation detailing and certifying the appropriateness of the administrative expenses allocated to the Federal funding was not prepared or maintained, as required by Office of Management and Budget (OMB) A-122. USABA personnel must be aware of and comply with OMB A-122 requirements. USABA must work with Paralympics to determine if any action needs to be taken to resolve non-compliance issues.

In total, \$22.04 of alcoholic beverages was mistakenly charged to the Federal funds. This amount is disallowed as an expense as it is not in compliance with OMB A-122. USABA must ensure alcohol and other unallowable costs as defined in OMB A-122 are not charged to Federal Subawards. USABA must contact Paralympics to determine if the unallowable costs must be repaid.

These are all identified as high risks.

### Control Environment and Governance

USABA has a program called the Athlete Development Account (ADA). USABA receives checks made out to USABA but restricted for the use of a specific athlete. The donors receive a tax deduction letter from USABA. USABA must contact a tax attorney to ensure it is not jeopardizing its tax exempt status by issuing a tax exempt letter for contributions that may not be deductible. This is identified as a high risk.

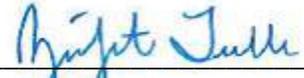
USABA's supporting documentation and internal controls are weak. During testing, several expenses were either not approved or correctly approved, supporting documentation did not provide enough information to support some expenses, contracts were not executed with independent contractors, and sick, vacation, or personal leave was not tracked for exempt employees. USABA should improve its supporting documentation. USABA's internal controls over wire transfers, bank reconciliations, and journal entries also need improvement.

USABA's Board recently approved a Conflict of Interest policy and disclosure requirement. USABA should continue to enforce the policy and assign the annual requirements to a responsible party to ensure compliance. USABA's Board should consider reviewing and amending its Bylaws for independent directors, a governance committee, committee meeting minutes, and possible excessive term limits.

These were identified as moderate risks.



Debra D. Yoshimura  
Managing Director



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# AUDIT REPORT

## United States Association of Blind Athletes, Inc.

USABA operates on a calendar year, which is the same as the Goalball Performance Funding grant year. The Federal funds were awarded on several different grant years. The USOC's actual funding to USABA for calendar years 2010 and 2011 was as follows:

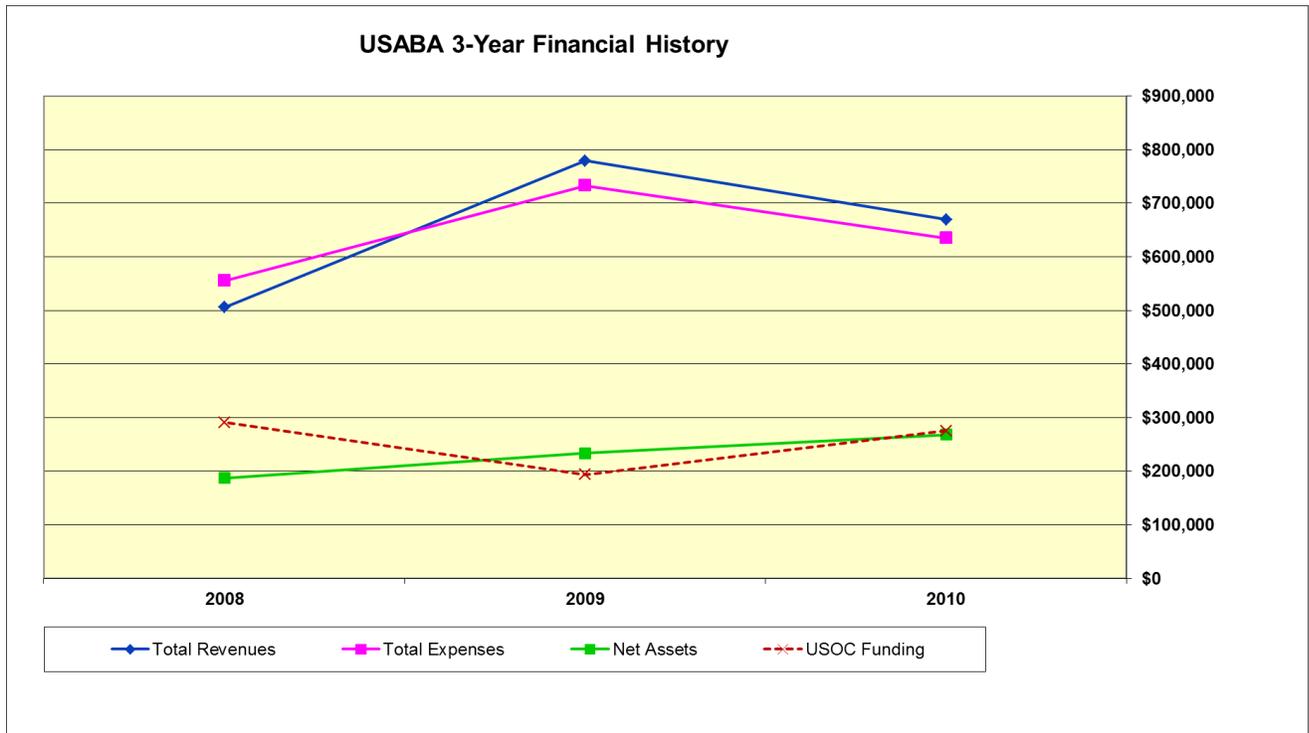
	<b>2010</b>	<b>2011</b>
	<b>Actual</b>	<b>Actual</b>
<b>Goalball Funding</b>		
Performance Funding (Cash)	\$ 124,000	\$ 124,000
United Value-in-kind	4,139	3,808
<b>Total Goalball Funding</b>	<b>\$ 128,139</b>	<b>\$ 127,808</b>
<b>Goalball Athlete Support</b>		
Paralympic Athlete Performance	\$ 38,750	\$ 45,250
Operation Gold	24,000	-
Elite Athlete Health Insurance*	5,200	5,700
<b>Total Athlete Support</b>	<b>\$ 67,950</b>	<b>\$ 50,950</b>
<b>Federal Funding</b>		
DOD Olympic Opportunity Fund	\$ 25,000	\$ -
VA	271,250	100,000
DOD	-	155,000
<b>Total Federal Funding</b>	<b>\$ 296,250</b>	<b>\$ 255,000</b>
<b>Total USOC Support</b>	<b>\$ 492,339</b>	<b>\$ 433,758</b>

\*Elite Athlete Health Insurance (EAHI) amounts are approximate values. The PPA awarded EAHI for up to 12 athletes for 2010 and 2011.

In addition to the funding listed above, USABA moved its national office to the Olympic Sport House on September 1, 2011. USABA pays rent, to the USOC, which is less than the market value for the space it occupies. USABA received approximately \$9,430 in rental benefits from the USOC in 2011.

USABA's financial condition is stable, for its size, but it could be improved. Analysis of the audited financial statements showed that as of December 31, 2010, USABA's assets outweighed its liabilities and it had 53 days of working capital to pay upcoming bills. USABA's net assets totaled \$267,991. USABA relies on the USOC for a large portion of its funding.

The following graph depicts the previous three years of USABA's financial history. Audited Financial statements were not available for 2011 at the time of this report.



USABA received an average of 41% of its total revenue from the USOC over the last three years. Other sources of revenue included grants, contributions & bequests, corporate sponsorships, in-kind contributions, fundraising events, athlete registrations, and other revenue.

### ***FINDINGS AND RECOMMENDATIONS***

This audit separately identified opportunities for improvement with Goalball funding, Federal funding, and USABA’s control environment and governance. The level of risk is identified for each recommendation. The level of risk was determined based on the potential impact it could have to USABA and its athletes, the managerial and financial capabilities of USABA, and any mitigating controls noted during the audit.

#### **A. Summary of Prior Audit Observations & Recommendations**

USABA’s prior USOC audit was conducted for grant years 2000 and 2001. Since the prior audit was performed more than 10 years ago, the status of the prior audit recommendations was not reviewed.

#### **B. Current Audit Observations & Recommendations for Goalball Funding**

USABA received funds from the USOC Sport Performance Division to manage the activities and operations of the United States Goalball National Team programs, referred to in this report as Goalball Performance Funding. USABA executed a Paralympic Sport Management Agreement (PSMA) with the USOC which identifies the purpose and requirements of the Goalball Performance funding.

**Goalball Final Grant Reports**

USABA’s 2010 and 2011 final grant reports are not accurate. The NGB and Athlete Support Manual states the amount reported on the final grant report as expended on the project should agree to the general ledger.

USABA’s general ledger did not agree to the final grant reports for 2010 and 2011 Goalball Performance funding. The following chart shows the variances between the general ledger and the final grant reports.

**2010 Goalball Performance Funding**

Expenses per General Ledger	\$ 151,634
Expenses per Final Grant Report	153,400
Variance	<u>\$ (1,766)</u>

**2011 Goalball Performance Funding**

Expenses per General Ledger	\$ 156,530
Expenses per Final Grant Report	170,705
Variance	<u>\$ (14,175)</u>

The Paralympic High Performance Manager for Goalball (Goalball Manager) tracked expenses on a spreadsheet and used that spreadsheet to complete the final grant reports. The general ledger was not provided to the Goalball Manager and the spreadsheet was not compared or reconciled to the general ledger. The general ledger also contained one expense that was incorrectly recorded as a Goalball expense.

Without accurate reports, expenses could mistakenly be double counted and/or disallowed. USABA’s funding could be reduced in the future because it does not keep accurate and complete records to support the grant award.

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**Recommendation**

1. The Goalball Manager must review the general ledger and reconcile the general ledger with his spreadsheet to ensure both are accurate. The final grant reports should be prepared using the general ledger after the review and reconciliation has taken place.
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Goalball referees donate their services to USABA to officiate tournaments. USABA records the donated services as a value in kind (VIK) expense. During 2010 and 2011, USABA recorded \$30,605 and \$15,000, respectively in referee VIK. USABA included the VIK with its member organization funding on the final grant reports. The NGB and Athlete Support Manual states that all funding sources, such as USOC, Member Organization, Sponsorship, TV, VIK, and other sources should be

reported separately. VIK revenue is described as non-cash support received for an approved project that is not from the USOC. The source of the revenue should also be identified.

In 2010, when the VIK is removed from the total expenses identified on the final grant report, USABA did not spend \$6,971 of USOC funds (see the chart below). For this instance only, Sport Performance has allowed USABA to allocate a portion of the Goalball Manager's salary to the project expenses so USABA will not have to repay the funds. In 2011, USABA spent enough of its own funding that it does not have unspent USOC funds.

2010 Goalball Performance Funding

Total Expenses reported in the Financial System (including VIK)	\$ 151,634
Less: USOC Funding	<u>(128,000)</u>
	23,634
Less: Goalball Officials VIK	<u>(30,605)</u>
Total of unspent USOC funds	<u>\$ (6,971)</u>

In future years, USABA may not be allowed to allocate additional expenses to grant projects and could be required to repay unspent USOC funds.

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**Recommendation**

2. USABA should report all revenue sources, including VIK, separately on the final grant reports.

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**C. Current Audit Observations & Recommendations for Federal Subawards**

USABA received funds from U.S. Paralympics (Paralympics) for the United States Department of Veterans Affairs (VA) U.S. Paralympics Integrated Adaptive Sports Program and the United States Department of Defense (DOD) Paralympic Military Program.

The VA and DOD Programs are Federally-funded initiatives and are subject to various federal requirements including Office of Management and Budget (OMB) Circular A-122 (A-122) and OMB Circular A-110 (A-110). Subaward Agreements were executed between Paralympics and USABA which detailed the purpose of the grants, restrictions, and requirements governing use of the funds.

The purpose of the VA Program is to plan, develop, manage, and implement an integrated adaptive sports program for disabled Veterans and disabled members of the Armed Forces. Funds awarded under this Program are referred to in this report as VA funds. USABA's first Agreement included four different projects and allowed costs incurred from April 1, 2010 through September 30, 2011. The second Agreement contains two different projects and is effective September 1, 2011 through September 30, 2012.

The purpose of the DOD Program is to provide injured service members with opportunities to participate in physical activity at the local, regional, and national level. Funds awarded under this Program are referred to in this report as DOD funds. The grant under this program was effective

January 1, 2011 through January 1, 2012, and later extended through December 31, 2012. USABA also received an Olympic Opportunity Fund grant at the beginning of 2010 from DOD funds.

## ***High Risk***

### **Federal Quarterly Reports**

USABA's Federal quarterly reports are not accurate. The costs included on the quarterly reports did not agree to the general ledger for the Federal Subaward. The Federal Subaward Agreements, Section 3.2 states, "Subawardee will track all funds provided by USOC under this Agreement in a separately identifiable account within Subawardee's financial system..."

USABA tracked the Federal funding on an Excel spreadsheet, but not separately in the financial system. The quarterly reports were prepared using the spreadsheet and not the general ledger. Although, quarterly reports generally agreed to the spreadsheet, the spreadsheet was not easily reconcilable to the general ledger.

During testing, it was noted that expenses were incorrectly charged to Federal Subaward accounts in the general ledger but the Excel spreadsheet contained the correct amount, and vice versa. Therefore, neither the spreadsheet nor the general ledger was accurate. The general ledger also contained donated goods/services, which are not allowable expenses, per OMB A-122. The spreadsheet did not contain the donated goods/services expense; therefore, the expense was not reported and will not be required to be repaid to the USOC.

USABA personnel were unaware that the general ledger must be used to prepare the quarterly reports and assumed the spreadsheet would be sufficient. Funding is not fully supported and could be asked to be returned to the USOC. Without accurate reports, expenses could mistakenly be double counted and/or disallowed. USABA's funding could be reduced in the future because it does not keep accurate and complete records to support the Federal funding.

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### **Recommendation**

3. The Military Coordinator must review the general ledger and reconcile the general ledger with his spreadsheet to ensure both are accurate. The quarterly reports should be prepared using the general ledger after the review and reconciliation has taken place.
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### **Compliance**

#### **Subaward Agreement**

USABA reported actual expenses that differed from the budget amounts set forth in the VA Subaward Agreement. The significant variances are reflected in the chart below.

Grant Project	Budget per Agreement	Amount Spent per Quarterly Report	\$ Variance	Budget Category % Variance
Mission Vision				
Personnel	50,000	50,000	-	0%
Operating Costs	19,500	5,883	(13,617)	-70%
Travel	10,000	16,962	6,962	70%
Equipment/Supplies/Other	10,500	17,190	6,690	64%
Administrative Costs	10,000	10,000	-	0%
	<u>100,000</u>	<u>100,035</u>	<u>35</u>	
Cycling Camp				
Personnel	10,000	25,375	15,375	154%
Operating Costs	20,000	19,502	(498)	-2%
Travel	55,000	26,178	(28,822)	-52%
Equipment/Supplies/Other	5,000	19,039	14,039	281%
Administrative Costs	10,000	10,000	-	0%
	<u>100,000</u>	<u>100,094</u>	<u>94</u>	

The VA Subaward Agreement states:

#### **4. PROJECT ADMINISTRATION.**

4.3. Subawardee may not, without USOC's prior written approval, transfer funds within Subawardee's approved budget categories, unless the cumulative amount of such transfers effect a change of 20% or less in each of the affected budget categories and 10% or less of the Total Reimbursement.

In other words, as long as both types of changes are under these percentages, USABA does not need the USOC's approval, but if a change causes at least one of the thresholds to be exceeded, approval must be obtained.

USABA is not in compliance with the Agreement because the changes caused the 20% threshold to be exceeded and USABA did not obtain the USOC's approval prior to making the changes. Future Subawards may be adversely affected by significant budget variances.

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#### **Recommendations**

4. USABA must work with Paralympics personnel to determine if any action is needed to resolve the budget category variances.
  5. USABA must obtain the USOC's written approval prior to transferring funds between its approved budget categories.
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## OMB A-122

### *Administrative Costs*

USABA was awarded a total of \$58,000 for administrative costs in the DOD and VA Subaward Agreements. USABA reported spending the entire amount of \$58,000 for administrative expenses but could not specifically identify general admin/office expenses that were charged to the Subawards. The Military Coordinator assumed the funds were to cover general administrative expenses, and did not allocate a percentage or specific costs to the Subawards.

The auditor requested USABA to identify administrative expenses charged to the Subawards. USABA provided a total of \$59,759 of administrative costs. The costs consisted of a portion of the Executive Director's (ED), Assistant ED's, and High Performance Director's salaries, rent, phone/IT, Office Supplies, and postage. Supporting documentation for the expenses detailing and certifying the appropriateness of the allocations was not prepared or maintained, as required by OMB A-122.

USABA was specifically awarded \$23,000 for office expenses for its DOD Subaward. USABA identified \$18,480 of office expenses for this Subaward. Per the Subaward Agreement extension, USABA has until December 31, 2012 to spend the remaining unspent funds of \$4,520 for the office expense budget category.

According to OMB A-122, *Attachment A, General Principles, D. Allocation of Indirect Costs and Determination of Indirect Cost Rates, 4. Direct allocation method.*

a...Joint costs, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity using a base most appropriate to the particular cost being prorated.

b. This method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. The bases must be established in accordance with reasonable criteria, and be supported by current data.

OMB A-122, *Attachment B, Selected Item of Cost 8. Compensation for Personal Services*, states:

m. Support of salaries and wages.

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, directly to awards.

....(c) The reports must be signed by the individual employee, or by a responsible supervisory official...

(d) The reports must be prepared at least monthly...

USABA is not in compliance with the identified parts of OMB A-122, which can result in repayment of Subaward funds and loss of future funding. USABA personnel did not understand the Subaward Agreement terms and were unaware of the specific OMB A-122 requirements.

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## Recommendations

6. In order to ensure compliance with all applicable requirements, principles, and selected items of cost within OMB A-122, USABA must:
    - Require personnel directly involved with the administration of the Federal Subawards to thoroughly review and familiarize themselves with OMB A-122.
    - Work with Paralympics to determine any action needed to resolve the non-compliance regarding time reporting and certification requirements for salaries and wages charged to the Subawards. USABA should implement a procedure to ensure compliance for any future salaries charged to the Subawards.
    - Determine an allocation methodology for administrative expenses prior to charging the costs to a project, and apply it consistently.
  7. USABA must spend the remaining \$4,520 of unspent office expenses for its DOD Subaward by December 31, 2012 or work with Paralympics to get approval to transfer funds to a different budget category.
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### ***Alcohol Beverages***

USABA personnel mistakenly charged alcohol to the Federal Subawards. Alcoholic beverages, totaling \$22.04, (\$12.04 DoD and \$10.00 VA) were charged to the Federal Subawards. Alcohol is an unallowable cost according to OMB A-122, *Attachment B, Selected Items of Cost 3*. Credit card receipts were submitted as support for several meal expenses. Credit card receipts, without the associated detailed receipt, are not adequate documentation and could result in additional disallowed expenses. USABA is not in compliance with the identified parts of OMB A-122, which can result in repayment of Subaward funds and loss of future funding.

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## Recommendations

8. USABA must ensure alcohol and other unallowable costs as defined in OMB A-122 are not charged to Federal Subawards. USABA should implement a policy and procedure of accountability that requires all employees, contractors, and others submitting business expense reports to clearly identify alcohol and other unallowable purchases for reimbursement.
  9. USABA must contact Paralympics to determine if the unallowable costs must be repaid.
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## D. Current Audit Observations & Recommendations for Control Environment and Governance

### **High Risk**

#### **Athlete Development Account**

USABA has a program called the Athlete Development Account (ADA). USABA receives checks made out to USABA but restricted to the use of specific athletes. The donors receive a tax deduction letter from USABA. The funds are used for athlete expenses for training and/or competition expenses.

The IRS applies two tests to determine whether a tax-deductible contribution was made to or for the use of a charitable organization, or if a contribution is a non-deductible pass-through to a particular individual who will ultimately benefit from the contribution. The first test is whether the contributor intended to make the donation to benefit the organization itself or the individual. The second test is whether the organization has full control and discretion of the donated funds to ensure the funds will be used to fulfill its functions and purposes.

The Tax Law of Charitable Giving by Bruce R. Hopkins states,

A charitable contribution deduction is not allowed if the charitable organization involved is used merely as a conduit, so that a payment to the charity is *earmarked* or similarly designated for the benefit of one or more specified individuals, even if these recipients are members of the charitable class the charity is intended to benefit.

The IRS defines a “charitable class” as “...a group of individuals that may properly receive assistance from a charitable organization. A charitable class must be either large enough that the potential beneficiaries cannot be individually identified, or sufficiently indefinite that the community as a whole, rather than a pre-selected group of people, benefits when a charity provides assistance.”

IRS Publication 526, Charitable Contributions, states:

#### **Contributions to Individuals**

You cannot deduct contributions to specific individuals, including the following....

- Contributions to individuals who are needy or worthy. This includes contributions to a qualified organization if you indicate that your contribution is for a specific person. But you can deduct a contribution that you give to a qualified organization that in turn helps needy or worthy individuals if you do not indicate that your contribution is for a specific person.

USABA could be jeopardizing its tax exempt status and USOC membership status by issuing letters saying earmarked contributions are deductible. USABA could also incur fines and penalties. USABA personnel stated their external auditors have not brought this issue to their attention.

### **Recommendation**

10. USABA must consult a tax attorney to ensure it is not jeopardizing its tax exempt status by issuing tax exempt letters for contributions that may not be deductible.

**Supporting Documentation**

**Approvals**

USABA had several sample items that were not approved or correctly approved. Out of the 106 expense items sampled for the Goalball Performance and Federal funding, there were 26 items that were missing approvals. One expense was submitted and approved by the same person. The Assistant ED receives, reviews, and codes all the expenses. There were times when the Assistant ED forgot to document his review and approval with a signature or his initials. USABA has since implemented a new form that documents the Assistant ED's and ED's approvals for expenses.

The ED's expenses are reviewed and approved by the Assistant ED. The Assistant ED reports directly to the ED. It may be difficult for someone who reports to the ED to question expenses or request additional documentation. Since it is the Board's responsibility to evaluate the ED's performance, it is appropriate for a Board member to review the ED's expenses. The review could be done on a quarterly or semi-annual basis as a back-up procedure after the ED has already been reimbursed. This way, reimbursements to the ED are not delayed, but an appropriate review procedure is in place.

Strong internal controls and proper segregation of duties require approval and payment be done by different parties. Preventive controls are designed to discourage errors or irregularities. A review and documented approval of purchases for propriety and validity could prevent inappropriate expenditures. The organization could be reimbursing expenses that are not appropriate. It is possible that unauthorized payments could be made and remain undetected.

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**Recommendations**

11. USABA should continue to use the new expense approval form to ensure approval is documented for all expenses. The person approving the expense should not be the person incurring the expense.
12. USABA's Board should designate a member to review and approve the ED's expenses, including charges to company credit cards.

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**Adequate Documentation**

USABA did not have adequate support for some of the expenses tested for the Goalball Performance and Federal funding.

Out of the 106 expenses sampled:

- Three expenses only had the credit card statement as support,
- Eight expenses only had the wire transfer form sent to the bank, but no supporting documentation,
- Three instances where the documentation for entry fees consisted of an email or invoice just stating a dollar amount but nothing to support the expense such as an athlete registration roster or registration documents, and

- Two instances where only the summary credit card receipt was submitted as support, without the associated detailed receipt.

For both 2010 and 2011 Goalball Performance funding, 14% of the ED's salary was allocated to the National Team project but the allocation was not based on any support. It is more appropriate to allocate the Paralympic High Performance Manager's salary based on supporting documentation, such as a time study.

USABA's Business Travel Expenses policy states travel expense "[r]eports should be accompanied by receipts for all individual expenses." Expenditures must be supported by adequate and original documentation. Adequate documentation is defined as providing enough information to support the expense and should include the expenditure amount, the payee, the date, the purpose of the expense, and any other pertinent information necessary to ascertain the expense's appropriateness.

It is possible that inappropriate or fraudulent expenses could be paid, which would reduce the funds available to USABA for achieving its goals. Non-allowable expenses such as alcohol could be charged to Federal funding and it would not be identified unless itemized receipts, not summary credit card receipts, are submitted.

USABA's does not have a complete and current financial policies and procedures manual. The Business Travel Expenses policy does not identify what type of support is needed for expenses; it only requires providing receipts for travel expenses. The Assistant ED is usually aware of the expenses the staff and contractors incurred, and questions expenditures that do not seem to be appropriate, but there still should be adequate support for all expenses.

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### **Recommendation**

13. USABA should have policies and procedures that identify the type of supporting documentation to be provided for expenses. The policies and procedures should be enforced and followed by all staff members.
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### **Contracts**

USABA has not executed contracts with outside contractors, such as Coaches. According to the ED, this was an oversight by USABA personnel. USABA uses independent contractors, to fulfill various program requirements.

In order to protect the organization and the independent contractors who perform services on behalf of USABA, it is essential that a signed contract or agreement detailing the rights and obligations of each party is executed. The organization is at risk for disagreements, misunderstandings, or loss related to amounts to be paid or services to be performed by independent contractors who work on behalf of USABA if signed agreements are not in place.

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### **Recommendation**

14. USABA should initiate contracts or agreements signed by both parties with independent contractors, including coaches and instructors, who provide services for USABA.
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#### **Time Tracking**

USABA does not require its salaried employees to track exceptions (sick, vacation, or personal) to their time. Exempt employees should complete exception reports and those reports should be reviewed or approved by the ED.

USABA's policies and procedures state: "Salary employees are required to complete Form SE001 when they have exceptions to their time (i.e. vacation, sick, personal, jury duty, weather). This form needs to be completed prior to the pay period ending so documentation can be submitted on the individuals pay stub."

Colorado Revised Statutes 8-4-101(8)(a)(III) requires employers pay all vacation earned but not taken when an employee leaves an organization. In order to pay accrued vacation benefits to former employees, the benefits must be tracked.

The Financial Accounting Standards Board, Statement 43, "requires a liability to be accrued for vacation benefits that employees have earned but have not yet taken; however, it generally does not require a liability to be accrued for future sick pay benefits, holidays, and similar compensated absences until employees are actually absent."

All employees are in a position to misappropriate funds by not working their required hours. When exception reports are not used, it creates the opportunity for potential payroll fraud and possible legal concerns. Additionally, USABA's financial statements do not accurately reflect its accrued liabilities.

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### **Recommendation**

15. USABA should require exempt employees to complete exception reports and track (vacation, sick, personal, etc.) leave so it can record the liability on its financial statements, be in compliance with its policies and procedures, and Colorado Statutes.
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#### **Internal Controls**

USABA's internal controls over wire transfers, bank reconciliations, and journal entries need improvement. Internal controls should be sufficient in an organization to ensure the reliability and integrity of information; compliance with policies and procedures, safeguarding of assets; and the economical and efficient use of resources. In order for USABA and USOC funds to be properly safeguarded, adequate internal control procedures must be in place and practiced on a daily basis.

There are four general categories of duties or responsibilities which should be segregated for adequate internal control: authorization, custody, record keeping, and reconciliation. In an ideal system, no one

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person should have control of two or more of these responsibilities. When duties cannot be fully segregated due to staff size and other factors, mitigating controls must be established. Mitigating controls are additional procedures designed to reduce the risk of errors, fraud, or irregularities, and include review and reconciliation processes designed to detect errors and misstatements.

The Assistant ED initiates wire transfers. After the wire is initiated, the bank calls USABA to verify the amount, date, and payee is correct and approved. The bank usually calls the Assistant ED. To increase internal controls, the bank should be contacting someone other than the Assistant ED, since he is the one who initiates the transfers.

The ED reviews the bank statements and reconciliations but does not document his review. Journal entries are completed by the Contract Accountant and no review or approval takes place. USABA does not receive the supporting documentation for the journal entries. Without a requirement that bank reconciliations and journal entries be reviewed; errors, omissions, or fraudulent transactions could be covered up and not discovered timely. The ED should review bank reconciliations when he reviews the bank statements, and should review journal entries on a monthly basis. His reviews should be documented with the date and his signature. Journal entry support should also be kept at USABA's national office.

USABA is at a risk of loss through the misappropriation of funds and fraud. USABA personnel and the Contract Accountant are in positions to redirect USABA's cash or other assets to personal accounts or for personal use. USABA has a very limited staff. The ED and Assistant ED are the only staff members who have financial responsibilities and it is difficult to segregate duties.

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### **Recommendation**

16. USABA should increase internal controls over wire transfers, bank reconciliations, and journal entries. The ED should approve wire transfers after the Assistant ED initiates the transfers. The ED should review bank reconciliations and journal entries and document his review with the date and his signature.

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### **Governance**

#### **Conflict of Interest Policy**

On May 2, 2012, USABA's Board approved its Conflict of Interest Policy and Information Form. The Policy requires that each responsible person annually complete a disclosure form and review the Policy.

According to The Internal Revenue Services (IRS) Governance and related Topics 501(c)(3):

The Internal Revenue Service encourages organizations to require its directors, trustees, officers and others covered by the policy to disclose, in writing, on a periodic basis any known financial interest that the individual, or a member of the individual's family, has in any business entity that transacts business with the charity. The organization should regularly and consistently monitor and enforce compliance with the conflict of interest policy.

USABA is not aware of potential conflicts of interest with its officers, employees, or members if it does not ask. This could result in potential embarrassment for USABA.

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### **Recommendation**

17. USABA should continue to enforce its newly approved Conflict of Interest Policy and Information Form and assign one person to be responsible for monitoring compliance with the annual requirements.
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#### **USABA Bylaws**

The following items were identified in USABA's Bylaws:

- The Bylaws do not require the Board to include at least 20% independent directors. A Governance Committee is not listed as a standing committee in the Bylaws. But the Board minutes from December 2011, identify the Governance Committee as a standing committee.

The Governance Guidelines provided by the USOC recommend that Boards have at least 20% independent directors and have a Nominating & Governance committee. Boards should be in compliance with the Governance Guidelines to achieve sustained competitive excellence.

- The Bylaws allow Board members to serve up to three (3) consecutive four-year terms. Therefore, a board member could be on the board for 12 years.

The BoardSource Nonprofit Governance Index 2010 reported that “[o]n average, maximum tenure of a board member is 7.2 years. The most common board member term structure is two consecutive three-year terms.” Having shorter term limits allows for new Board members with new ideas. Boards without new members can stagnate and be unproductive for the organization.

- The Bylaws do not require the committees to keep minutes of meetings. The Board meeting minutes contain a report from each committee but there are no minutes from the actual committee meetings.

The Colorado Revised Nonprofit Act (The Act) requires that a nonprofit retain as permanent records minutes of all actions taken by a committee of the Board of Directors. The Audit Committee is not in compliance with The Act. USABA should require all of its Board of Directors' Committees to document and maintain formal minutes of all meetings to be in compliance with The Act.

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### **Recommendation**

18. USABA's Board should consider updating its Bylaws, specifically for independent directors, term limits, and committee minutes.
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**Policies and Procedures**

USABA’s policies and procedures are outdated and do not address the following: cash receipts, financial reporting, purchasing and receiving, accounts payable process, and a budget process. USABA has limited resources and this has not been a priority.

Policies and procedures are an effective management tool that can benefit the organization in several ways:

- Promotes consistency, efficiency, and professionalism by standardizing how staff members carry out their duties.
- Serves as a formal mechanism for the transfer of authority and responsibility to staff.
- Provides a mechanism for achieving compliance with standards.
- Provides documentation for employee disciplinary actions.

Without complete and current Policies and Procedures, organizational policies may not be adequately communicated resulting in difficulty in achieving goals and objectives. Tasks may be performed inconsistently or not at all.

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**Recommendation**

19. USABA should update and expand its policies and procedures.

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***CONCLUSION***

USABA materially complied with the majority of requirements of the federal Subaward Agreements and the PSMAs for the grant periods. Some expenses charged to the Subaward projects were not in compliance with Federal Regulations and could be disallowed. USABA has many opportunities for improvement. Some of the recommendations are not material in nature but cumulatively could adversely affect the organization.

USABA must improve its expense tracking so its general ledger agrees to the Goalball final grant reports and Federal quarterly reports. USABA must report referee donated services separately on its final grant reports. USABA must comply with the Subaward Agreements and Federal regulations.

USABA must contact a tax attorney regarding its Athlete Development Account program to ensure it is not in violation of IRS regulations. USABA should improve its supporting documentation, internal controls, governance, and policies and procedures.

We wish to thank USABA’s staff for being cooperative and accommodating during the audit. It was a pleasure working with Mark Lucas, Ryan Ortiz, Rich Cardillo, and John Potts we look forward to working with them again in the future.

## **Appendix A**

### **BACKGROUND**

United States Association of Blind Athletes, Inc. (USABA) a 501(c)(3) organization incorporated in the State of Colorado. USABA is the High Performance Management Organization (HPMO) for the sport of goalball in the United States and maintains headquarters in Colorado Springs, Colorado. USABA also operates a Military program to help those who have served in the US Military by creating sport opportunities for active service members and veterans who are blind and visually impaired. USABA's mission is "enhance the lives of people who are blind and visually impaired by providing the opportunity for participation in sports and physical activity." USABA provides sport opportunities to many children, youth, adults, and veterans who are blind and visually impaired.

## Appendix B

### AUDIT OBJECTIVES

The purpose of the audit was to determine if USABA is in compliance with the requirements of the Ted Stevens Olympic and Amateur Sports Act, 36 U.S.C. § 220522 *et seq.*, Eligibility requirements, which state:

(a) GENERAL.—An amateur sports organization is eligible to be recognized, or to continue to be recognized, as a national governing body only if it—

(1) is incorporated under the laws of a State of the United States or the District of Columbia as a not-for-profit corporation having as its purpose the advancement of amateur athletic competition;

(2) has the managerial and financial capability to plan and execute its obligations....

The objectives of the audit were to determine if:

- USABA was in compliance with the requirements agreed to in the Paralympic Sport Management Agreements and Federal Subaward agreements for 2010 and 2011.
- USABA is in compliance with all applicable Federal requirements for recipients of Subaward funds for the grant years, specifically, but not limited to, OMB Circular A-122 and OMB Circular A-110.
- Grant reports submitted to the USOC were accurate, complete, and supported by original, detailed documentation.
- An adequate internal control process is in place to ensure that USABA and USOC funds are protected.
- USABA is in compliance with its Bylaws, Policies and Procedures and Conflict of Interest, and other organic documents.
- USABA's managerial and financial capability is adequate to plan and execute its authority and responsibility as a contractor and Subawardee.

The audit activities included a study of accounting and administrative controls considered relevant in assessing the control risk and control environment as established by management. The review was based on USOC recommended best practices and directives concerning grants and athlete assistance, provisions of USOC grant contracts, and Subaward Agreements, USABA's internal operating procedures, accounting principles generally accepted in the United States of America (GAAP), and Generally Accepted Auditing Standards (GAAS).