GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.

(A Texas Nonprofit Organization)

ANNUAL FINANCIAL AND COMPLIANCE AUDIT REPORTS

Years Ended
September 30, 2023 and 2022

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

SEPTEMBER 30, 2023 and 2022

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McConnell Jones

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Gulf Coast Community Services Association

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gulf Coast Community Services Association, Inc. (the "Organization"), a Texas nonprofit organization, which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting

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a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

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 on page 24, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. 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 U.S. GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

McConnell Jones

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2024, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

McConnell & Jones LLP

Houston, Texas
June 11, 2024

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	$ 536,275	$ 678,585
Grants receivable	1,199,588	1,169,127
Other receivables	879,189	741,285
Inventory	18,135	39,468
Prepaid and other assets	393,452	687,618
Total current assets	3,026,639	3,316,083
NONCURRENT ASSETS		
Property and equipment, net	1,760,691	916,241
Right-of-use assets for finance lease	219,267	-
Right-of-use assets for operating lease	5,141,621	-
Total Non-current Assets	7,121,579	916,241
TOTAL ASSETS	$ 10,148,218	$ 4,232,324
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,057,358	$ 1,111,940
Salaries and related liabilities payable	732,539	540,593
Unearned revenue	482,015	600,704
Finance lease liabilities - current portion	61,719	-
Operating lease liabilities - current portion	827,231	-
Total current liabilities	3,160,862	2,253,237
NONCURRENT LIABILITIES		
Finance lease liability - net of current portion	159,740	-
Operating lease liability - net of current portion	4,370,994	-
Total Non-current Liabilities	4,530,734	-
TOTAL LIABILITIES	7,691,596	2,253,237
NET ASSETS		
Without donor restrictions	2,456,622	1,979,087
TOTAL NET ASSETS	2,456,622	1,979,087
TOTAL LIABILITIES AND NET ASSETS	$ 10,148,218	$ 4,232,324

The accompanying notes are an integral part of these financial statements.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues without donor restrictions		
Government grants	$ 28,316,254	$ 26,922,951
In-kind contributions	8,872,741	7,204,798
Other revenues	279,828	188,971
Total unrestricted revenues	37,468,823	34,316,720
Expenses		
Program expenses	36,985,967	33,815,046
Management and general expense	5,321	15,119
Total expenses	36,991,288	33,830,165
CHANGES IN NET ASSETS	477,535	486,555
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	1,979,087	1,492,532
NET ASSETS, END OF YEAR	$ 2,456,622	$ 1,979,087

The accompanying notes are an integral part of these financial statements.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Program Services					Supporting Services		
	Head Start/EHS	CSBG	CACFP	Other Programs	Total Program Services	Management and General	Total Support Services	Total Expenditures
Salaries and wages	$ 12,150,114	$ 1,827,550	$ -	$ -	$ 13,977,664	$ -	$ -	$ 13,977,664
Payroll taxes	940,242	133,914	-	-	1,074,156	-	-	1,074,156
Employee benefits costs	2,082,641	344,785	-	19	2,427,445	-	-	2,427,445
Contract wages	2,354,984	229,218	-	-	2,584,202	-	-	2,584,202
Building occupancy costs	1,210,309	491,268	-	-	1,701,577	-	-	1,701,577
Utilities	143,154	26,430	-	-	169,584	-	-	169,584
Telephone	189,543	22,409	-	-	211,952	-	-	211,952
Insurance	110,254	32,236	-	-	142,490	-	-	142,490
Travel	24,206	59,498	-	-	83,704	-	-	83,704
Equipment leasing and repairs	530,333	143,622	-	-	673,955	-	-	673,955
Office supplies	208,738	13,533	-	-	222,271	4,699	4,699	226,970
Vehicle operating and maintenance	21,529	11,295	-	-	32,824	-	-	32,824
Printing, reproduction and publicity	11,207	3,192	-	-	14,399	-	-	14,399
Seminars and workshops	5,133	31,832	-	-	36,965	-	-	36,965
Postage	2,404	886	-	-	3,290	-	-	3,290
In-kind contributions	8,872,741	-	-	-	8,872,741	-	-	8,872,741
Professional and legal fees	176,378	58,290	-	-	234,668	622	622	235,290
Classroom supplies	113,273	-	-	-	113,273	-	-	113,273
Food supplies	344,755	-	833,371	-	1,178,126	-	-	1,178,126
Health assessments and evaluations	282,238	232	719	934	284,123	-	-	284,123
Training and technical assistance	274,550	1,295	-	-	275,845	-	-	275,845
Parent activities	19,020	-	-	-	19,020	-	-	19,020
Client direct assistance	-	2,444,440	-	-	2,444,440	-	-	2,444,440
Other expenses	15,287	2,975	-	2,544	20,806	-	-	20,806
Depreciation and amortization	167,848	18,018	-	581	186,447	-	-	186,447
Total Expenses	$ 30,250,881	$ 5,896,918	$ 834,090	$ 4,078	$ 36,985,967	$ 5,321	$ 5,321	$ 36,991,288

The accompanying notes are an integral part of these financial statements.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Program Services					Supporting Services		
	Head Start/EHS	CSBG	CACFP	Other Programs	Total Program Services	Management and General	Total Support Services	Total Expenditures
Salaries and wages	$ 11,161,476	$ 1,846,706	$ -	$ -	$ 13,008,182	$ -	$ -	$ 13,008,182
Payroll taxes	856,689	133,851	-	-	990,540	-	-	990,540
Employee benefits costs	2,208,855	367,708	-	942	2,577,505	-	-	2,577,505
Contract wages	2,193,945	446,456	-	-	2,640,401	-	-	2,640,401
Building occupancy costs	1,290,342	416,927	-	-	1,707,269	-	-	1,707,269
Utilities	133,037	28,134	-	-	161,171	-	-	161,171
Telephone	179,263	24,700	-	-	203,963	-	-	203,963
Insurance	97,539	34,383	-	-	131,922	-	-	131,922
Travel	19,269	159	-	-	19,428	-	-	19,428
Equipment leasing and repairs	498,059	106,568	-	500	605,127	-	-	605,127
Office supplies	155,869	128,501	-	-	284,370	11,995	11,995	296,365
Vehicle operating and maintenance	21,881	5,585	-	5	27,471	-	-	27,471
Printing, reproduction and publicity	162,497	296	-	-	162,793	-	-	162,793
Seminars and workshops	2,070	118,411	-	500	120,981	-	-	120,981
Postage	270	103	-	-	373	-	-	373
In-kind contributions	7,200,979	3,819	-	-	7,204,798	-	-	7,204,798
Professional and legal fees	256,019	38,521	-	-	294,540	161	161	294,701
Classroom supplies	556,920	-	-	-	556,920	-	-	556,920
Food supplies	50,215	-	718,465	-	768,680	2,963	2,963	771,643
Health assessments and evaluations	272,123	-	1,135	1,500	274,758	-	-	274,758
Training and technical assistance	302,157	4,171	-	-	306,328	-	-	306,328
Parent activities	11,555	-	-	-	11,555	-	-	11,555
Client direct assistance	-	1,625,909	-	-	1,625,909	-	-	1,625,909
Other expenses	524	1,387	-	-	1,911	-	-	1,911
Depreciation and amortization	117,756	9,814	-	581	128,151	-	-	128,151
Total Expenses	$ 27,749,309	$ 5,342,109	$ 719,600	$ 4,028	$ 33,815,046	$ 15,119	$ 15,119	$ 33,830,165

The accompanying notes are an integral part of these financial statements.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

CASH FLOWS FROM OPERATING ACTIVITIES:	**2023**	**2022**
Change in net assets	$ 477,535	$ 486,555
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	186,447	128,151
Amortization of right of use assets	1,048,714	-
Changes in operating assets and liabilities:		
(Increase) in grants receivable	(30,461)	(632,384)
(Increase)/decrease in other receivables	(137,904)	548,491
Decrease/(increase) in food inventory	21,333	(20,329)
Decrease in prepaid and other assets	294,166	514,050
Increase/(decrease) in accounts payable and accrued expenses	(54,582)	2,474
Increase/(decrease) in salaries and related payable	191,946	(637,708)
Decrease in finance lease obligation	(51,244)	-
Decrease in operating lease obligation	(938,674)	-
Decrease in unearned revenue	(118,689)	(76,609)
Total adjustments	411,052	(173,864)
Net cash provided by operating activities	888,587	312,691
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,030,897)	(360,056)
Net cash used in investing activities	(1,030,897)	(360,056)
NET DECREASE IN CASH	(142,310)	(47,365)
CASH, BEGINNING OF YEAR	678,585	725,950
CASH, END OF YEAR	$ 536,275	$ 678,585
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW		
Right-of-use asset obtained in exchange for new finance lease obligation	$ 272,703	$ -
Right-of-use asset for operating lease upon ASC 842 implementation	$ 6,136,899	$ -

The accompanying notes are an integral part of these financial statements.

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Organization and Business</u>

Gulf Coast Community Services Association (the "Organization") is a Texas nonprofit organization established and incorporated on June 19, 1968, to identify, analyze and work to alleviate poverty and to eliminate its causative factors by partnering with eligible families to provide comprehensive quality programs and services. The Organization operates several programs and services to promote self-sufficiency targeted at low-income families and individuals. These programs and services are primarily funded by Community Services Block Grant and other federal, state, and local grants. The Organization also administers Head Start and Early Head Start Programs in the southeast sector of Harris County, Texas.

<u>Basis of Accounting</u>

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

<u>Financial Statement Presentation</u>

The Organization is required under U.S. GAAP to report information presented in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC Topic 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets as follows:

- **Net Assets without donor restrictions** – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Organization. The Organization had net assets without donor restrictions of $2,456,622 and $1,979,087 as of September 30, 2023 and 2022, respectively.

- **Net Assets with donor restrictions** – These are resources that are subject to donor-imposed stipulations that may be met, either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. The Organization had net assets with donor restrictions of $0 and $0 as of September 30, 2023 and 2022, respectively.

When both restricted and unrestricted resources are available for use, it is the Organization's policy to use resources with donor restrictions first, then resources without donor restrictions as they are needed.

Revenue Recognition

Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements that are allowable for reimbursement. Revenues from contributions, donations and other sources are recognized as with or without donor restriction revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on the passage of time. Program income and other income are recognized when received. Conditional promises by third parties to give cash or other assets to the Organization are not recognized until the cash or other assets are received.

Contributions

Contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restriction, depending on the nature of the restrictions. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction upon satisfaction of the time or purpose restrictions and reported in the statement of activities as net assets released from restrictions.

Liquidity and Availability of Financial Assets

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date are as follows:

	2023	2022
Cash	$ 536,275	$ 678,585
Grants receivable	1,199,588	1,169,127
Other receivables	879,189	741,285
Total financial assets available for general expenditures	$ 2,615,052	$ 2,588,997

As part of the Organization's liquidity management, the Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 6, the Organization also has a committed line of credit in the amount of $500,000, which it could draw upon in the event of an unanticipated liquidity need.

Receivables

Receivables represent reimbursements that were pending from funding sources for program expenses incurred as of September 30, 2023 and 2022, both billed and unbilled, and expected to be received in the subsequent year. Management considers receivables at September 30, 2023 and 2022 to be fully collectible. Accordingly, no allowance for delinquent receivables was made in the accompanying financial statements.

Donated Services, Materials and Facilities

The Organization's Head Start centers are leased from lessors at below market rental rates. The Organization also collaborates with an independent school district to provide the Organization with teachers and other resources at those centers at little or no cost to the Organization. Donated services, materials and facilities received by the Organization are recorded at their estimated fair values.

Cash and Cash Equivalents

The Organization considers all monies in banks and highly liquid investments with maturity of three months or less from date of purchase to be cash equivalents. The carrying value of cash approximates fair value because of the short maturities of those financial instruments. The Organization had no cash equivalents at September 30, 2023 and 2022. Additionally, separate bank accounts were maintained to comply with the requirements of certain grantors.

Unearned Revenues

Grants received in advance that relate to the period after year-end are reported as unearned revenues in the statements of financial position.

Food Inventories

Food inventory is stated at average cost determined by the first-in, first-out method.

Property and Equipment

Property and equipment are recorded at cost or, if donated to the Organization, at their estimated fair value at the date of donation. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated to the Organization with explicit restrictions regarding their use, and contributions of cash that must be used to acquire or maintain property and equipment are recorded as restricted contributions. Presently, the Organization does not have any assets which have donor-imposed restrictions.

The Organization's policy is to capitalize all expenditures for property, furniture and fixtures, and office and computer equipment in excess of $5,000 per unit. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 30 years. Amortization of leasehold improvements is provided on the straight-line method over the remaining term of the lease or the useful life of the improvement, whichever is shorter. Maintenance and repair costs are charged to operations when incurred. Major improvements and renewals of property and equipment are capitalized.

Substantially all property and equipment presented in the accompanying statements of financial position were purchased with federal funds. Although the title to facilities acquired with Federal funds vests with the Organization, the federal government has an interest in the property and equipment acquired or upon which major renovations have been undertaken with grant funds for use as a Head Start facility. Facilities acquired with grant funds may not be mortgaged or used as collateral, or sold or otherwise transferred to another party, without the written permission of the appropriate U.S. Department of Health and Human Services official. Additionally, the use of the facility for other than the purpose for which the facility was funded is prohibited without the express written approval of such official.

Right-of-Use Assets

A right-of-use asset (ROU) is recognized at the present value of the lease payments at inception of the lease. For ROU- Finance, amortization is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease. For ROU- Operating, lease expense is recognized on a straight-line basis as rent expense in the statement of activities.

Compensated Absences

Annual vacation time and sick leave are granted to the Organization's employees. Under the Organization's policy, vacation time is earned based on the employees' length of service and four (4) hours are accrued each pay period for sick leave. Any unused vacation time up to a maximum of 80 hours not taken because of business requirements may be carried over to the following calendar year. Sick leave may be accumulated from one calendar year to another up to a maximum of 480 hours. While employees are paid for earned but unused vacation time upon termination of employment with the Organization if they provide at least 10 working days advance notice of their resignation, they are not paid for unused sick days upon termination of employment. Therefore, no accrual for unused sick days is recorded in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing various programs and other activities of the Organization have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited in accordance with the Organization's cost allocation plan. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and wages	Time and effort-labor allocation
Payroll taxes	Time and effort-labor allocation
Employee benefits costs	Time and effort-labor allocation
Contract wages	Time and effort-labor allocation
Building occupancy costs	Cost allocation based on square footage utilized
Utilities	Cost allocation- shared space, direct costs-unshared space
Telephone	Cost allocation- shared space, direct costs-unshared space
Insurance	Cost allocation- shared space, direct costs-unshared space
Travel	Direct costs
Equipment leasing and repairs	Cost allocation- shared expense, direct costs-unshared expense
Office supplies	Cost allocation- shared expense, direct costs-unshared expense
Vehicle operating and maintenance	Direct costs
Printing, reproduction and publicity	Direct costs
Seminars and workshops	Direct costs
Postage	Direct costs
In-kind contributions	Direct costs
Professional and legal fees	Direct costs
Classroom supplies	Direct costs
Food supplies	Direct costs
Health assessments and evaluations	Direct costs
Training and technical assistance	Direct costs
Parent activities	Direct costs
Client direct assistance	Direct costs
Other expenses	Direct costs
Depreciation and amortization	Direct costs

Income Taxes

The Organization is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and did not conduct any unrelated business activities. Therefore, the Organization has made no provision for federal income tax in the accompanying financial statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b) (1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Code.

The Organization applies the provisions of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The management of the Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements relate primarily to the useful lives applied in asset depreciation, estimates of the values of in-kind contributions and services, and functional allocations of expenses.

New Accounting Pronouncement

The Organization adopted FASB Accounting Standards Update (ASU) 2016-02 – *Leases* (Topic 842) in the current year which resulted in recognition of a Right-of-Use Asset for $5,360,888 and a corresponding lease liability for $5,419,684. Additional disclosures were presented in Note 7 below.

NOTE 2 - PROGRAMS AND SUPPORTING SERVICES

The costs of providing the various programs and other activities of the Organization are shown in the accompanying statements of functional expenses. The following major programs and supporting services are included in the accompanying financial statements:

- Head Start Program/Early Head Start Program
- Community Services Block Grant

Management and general activities consist of those functions that are necessary to coordinate the Organization's daily operations, programs, and services.

NOTE 3 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at September 30, 2023 and 2022:

	2023	2022
Buildings	$ 1,912,957	$ 1,811,399
Leasehold improvements	1,346,408	1,331,327
Furniture, fixtures and equipment	1,038,878	788,383
Vehicles	134,993	185,237
Software	120,708	93,114
Construction in progress	825,301	214,496
	5,379,245	4,423,956
Less: accumulated depreciation and amortization	(3,618,554)	(3,507,715)
Property and equipment, net	$ 1,760,691	$ 916,241

Depreciation and amortization expense for the years ended September 30, 2023 and 2022 was $186,447 and $128,151, respectively.

NOTE 4 - CONCENTRATION OF CREDIT AND BUSINESS RISKS

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Organization will not be able to recover its deposits. Although the Organization does not have a formal deposit policy, it maintains deposits at federally insured banks and strives to minimize its exposure to custodial credit risks by maintaining deposits at institutions with demonstrated financial strength. Bank balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per bank. The total cash maintained by the Organization in the bank as of September 30, 2023 and 2022, which was subject to custodial credit risk was $373,178 and $597,478, respectively. Management believes that this credit risk exposure was mitigated by the financial strength of the banking institution in which the deposits were held. In addition, Management monitors cash balances on a daily basis as a part of the Organization's cash management practices.

Credit risk associated with grants receivable is considered minimal due to the credit worthiness of the awarding federal and state agencies.

For the years ended September 30, 2023 and 2022, the Head Start/Early Head Start program accounted for approximately 58% and 61% of the revenues and support of the Organization, whereas, the Community Services Block Grant program accounted for approximately 15% and 16%, respectively. In addition, the Organization received, directly or indirectly, 74% and 77%, respectively, of its operating revenues for the years ended September 30, 2023 and 2022, from the U.S. Department of Health and Human Services.

NOTE 5 - LINE OF CREDIT

The Organization maintains a line of credit with a local financial institution in the amount of $500,000. The purpose of the line of credit is to support daily operations of the Organization. No draw-down was made on the line of credit during the years ended September 30, 2023 and 2022.

NOTE 6 - RETIREMENT PLAN

The Organization sponsors the Gulf Coast Community Services Association 401(k) Plan (the "Plan"). Each year, participants may contribute up to 100% of pretax annual compensation, as defined in the Plan. The Organization makes a matching contribution of 100% of the first 1% an eligible participant contributes to the Plan after completing one year of eligible service. Additional profit-sharing amounts of up to 3% of annual compensation of qualified employees may be contributed at the option of the Organization's Board of Directors. Employees are eligible to participate in the Plan after completion of 1,000 hours of service within one year of service. Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the Organization's contribution portion of their accounts is based on years of vesting service in accordance with the schedule provided in the Plan document.

The Organization's contributions to the Plan for the years ended September 30, 2023 and 2022 amounted to $470,592 and $463,044, respectively.

NOTE 7 - LEASE

Operating Leases

The Organization has four (4) real estate operating leases in Harris County, Texas, for locations used in its program services. Additionally, the Organization has two (2) long-term leases with a private entity, for buildings at Kirby Drive in Houston, Texas, to house its corporate offices and warehouse. The weighted average remaining term for the operating leases is 6.93 years.

The Organization used the risk-free rate based on the information available at the lease commencement date to determine the present value of lease payments, such risk-free rates were derived by reference to the interest paid on short-term government debt, resulting in the weighted average rate of 1.04% for operating leases.

Future minimum rent obligations under the operating leases as of September 30, 2023, are as follows:

Year ending September 31,	Operating
2024	$ 875,385
2025	840,565
2026	646,304
2027	659,318
2028	673,102
Thereafter	1,679,648
Total undiscounted cash flows	5,374,322
Less: present value discount	(176,097)
Total lease liabilities	$ 5,198,225

Finance Leases

The Organization has several finance leases for office equipment and a forklift during the 2022/23 fiscal year. The weighted average remaining term for the finance leases is 3.64 years and the weighted discount rate for these leases is 2.16%.

Future minimum rent obligations under the finance leases as of September 30, 2023, are as follows:

Year ending September 31,	Finance
2024	$ 65,828
2025	65,829
2026	61,554
2027	26,670
2028	11,298
Thereafter	-
Total undiscounted cash flows	231,179
Less: present value discount	(9,720)
Total lease liabilities	$ 221,459

The Organization's total lease expense for both types of leases for the year ended September 30, 2023 and 2022 totaled to $1,251,715 and $1,129,842, respectively.

NOTE 8 - CONTINGENCIES

The Organization receives grants from federal and other funding sources that are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by the Organization with the terms of the grants/contracts. In the opinion of the management, such disallowances, if any, would not be significant in relation to the financial statements of the Organization.

NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 11, 2024; the date the financial statements were available to be issued. No change to the financial statements is deemed necessary as a result of this evaluation.

SINGLE AUDIT SECTION

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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*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Gulf Coast Community Services Association, Inc.

We have audited, in accordance with the 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, the financial statements of Gulf Coast Community Services Association, Inc. (the "Organization"), which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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. 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 were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and

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material effect on the financial statements. 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*.

Purpose of this Report

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

McConnell & Jones LLP

Houston, Texas
June 11, 2024

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Gulf Coast Community Services Association, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Gulf Coast Community Services Association, Inc.'s (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2023. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

McConnell Jones

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

McConnell & Jones LLP

Houston, Texas
June 11, 2024

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-Through Grantor/ Assistance Listing Program Title / *Program Title*	**Assistance Listing Number**	**Federal Agency Identifying Award Number**	**Pass-Through Agency Identifying Number**	**Federal Expenditures**
U.S. Department of Health and Human Services				
Direct Awards:				
Head Start *Head Start / Early Head Start*	93.600	06CH-010958-04 06CH-010958-05	-	$ 20,724,525
COVID-19 – Head Start *American Rescue Plan*	93.600	06HE000746-01-01	-	1,333,494
Total - Direct Awards				22,058,019
Pass-Through Awards:				
Passed through Texas Department of Housing and Community Affairs				
Community Services Block Grant	93.569	2101TXCOSR 2201TXCOSR	61220003647 61230003800	5,857,712
Total - Pass-Through Awards				5,857,712
Total - U.S. Department of Health and Human Services				27,915,731
U.S. Department of Agriculture				
Pass-Through Award:				
Passed through Texas Department of Agriculture				
Child and Adult Care Food Program	10.558	-	NT4XL1YGLGC5	552,346
Total - Pass-Through Awards				552,346
Total - U.S. Department of Agriculture				552,346
Total Expenditures of Federal Awards				$ 28,468,077

See notes to the schedule of expenditures of federal awards.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "SEFA") include federal grant activities of the Gulf Coast Community Services Association, Inc. (the "Organization") under programs of the federal government for the year ended September 30, 2023. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 - Summary of Significant Accounting Policies

The accompanying Schedule is presented on the accrual basis of accounting, which is described in Note 2 to the financial statements. Such expenditures are recognized following the cost principles contained in Subpart E of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - Indirect Cost Rate

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - Contingencies

Federal grants received by the Organization are subject to review and audit by grantor agencies. The Organization's management believes that the results of such audits will not have a material effect on the Schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 5 - Reconciliation to Financial Statements:

The following reconciles federal award expenditures as included in the Schedule to the expenditures reported in the financial statements of the Organization for the year ended September 31, 2023:

		Amount
Total expenditures per the statement of activities	$	36,991,288
Add: Expenditures reported in prior year's schedule of expenditures of federal awards		535,977
Less: Donated materials, services, and facilities		(8,872,741)
Depreciation and amortization		(186,447)
Total expenditures per the schedule of expenditures of federal awards	$	28,468,077

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

PART 1 – SUMMARY OF AUDITOR'S RESULTS

Financial Statement Section

1. Type of auditor's report issued:	Unmodified
2. Internal control over financial reporting:	
a) Material weaknesses identified?	No
b) Significant deficiencies identified that are not considered to be material weaknesses?	No
c) Noncompliance material to financial statements noted?	No

Federal Awards Section

1. Internal control over major programs:	
a) Material weaknesses identified?	No
b) Significant deficiencies identified that are not considered to be material weaknesses?	Yes
2. Type of auditor's report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed, which are required to be reported in accordance with 2 CFR Section 200.516(a)?	Yes

4. Identification of major programs:

Federal CFDA Number	Name of Federal Program
93.569	Community Services Block Grant

5. Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
6. Auditee qualified as low-risk auditee under 2 CFR Section 200.520?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT

None noted.

PART III: FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

ASSISTANCE LISTING 93.569 – COMMUNITY SERVICES BLOCK GRANT

FEDERAL AWARDING AGENCY: U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
PASS-THROUGH ENTITY: TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FEDERAL GRANT AWARD NUMBERS: 2101TXCOSR AND 2201TXCOSR
PASS-THROUGH ENTITY IDENTIFYING NUMBERS: 61220003647 AND 61230003800

FINDING NO. 2023-001: NON-COMPLIANCE WITH SPECIAL TESTS AND PROVISIONS RELATED TO TRI-PARTITE BOARD COMPLIANCE AND SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER NONCOMPLIANCE WITH THE RELEVANT SPECIAL TESTS AND PROVISIONS

Condition: Gulf Coast Community Services Association, Inc. (the "Organization) currently has nine (9) members on its Board with one (1) vacant seat pending nomination from an elected public official. As such, only two (2) members currently represent elected public officials. The vacant board position has not been filled and has exceeded the length of time the state allows for the seat to remain vacant. Additionally, no appointive public official was nominated to fill this vacant seat.

Criteria: The CSBG Act at 42 USC 9910(a)(2)(A) and Title 10 of the Texas Administrative Code (TAC) Part 1, Chapter 6, Subchapter B, Rule §6.210(a) requires GCCSA to administer the CSBG Program through a tripartite board with a condition that one-third (1/3) of such members be elected public officials, holding office on the date of the selection, or their representatives. In the event that there are not enough elected public officials reasonably available and willing to serve on the board, the entity may select appointive public officials to serve on the board. The public officials selected to serve on the board may each choose one permanent representative or designate an alternate to serve on the board. Appointive public officials or their representatives or alternates may be counted in meeting the 1/3 requirement.

Per May 2023 OMB Compliance Supplement, the CSBG Act does not provide for a grace period for entities to get into compliance when a vacancy exists, however, entities are required to not exceed the length of time permitted by the state. Rule §6.212(b)(1) of Subchapter B above of the TAC, allows the board position to remain vacant for no more than 90 days.

Cause: The Organization did not take the necessary steps to ensure and support the Board's timely selection and seating of a public official or public official's permanent representative to fill the vacant public sector seat.

Perspective Information: The Organization has not filled the board vacancy for the selected public official for over one (1) year.

Questioned Costs: None noted.

Effect or Potential Effect: The Organization is not in compliance with its corporate bylaws as well as regulatory provisions related to tri-partite board requirements.

Identification of Repeat Finding: Not applicable since this is a new finding.

Recommendation: We recommend that the Organization fill the vacant public sector seat, strengthen monitoring of compliance with corporate bylaws and report such compliance to the Governance & Operations Committee and/or its Board of Directors, at least on an annual basis.

Views of Responsible Officials: Although there were several unforeseen circumstances that adversely impacted the timely filling of the vacancy for the public sector seat, none validate the fact that the Organization did not adhere to the expectations outlines in the corporate bylaws and regulatory provisions.

It is important, however, that the Organization is aware of the need for key members of management to work with the Board to develop a plan for board recruitment, development and training.

PART III: FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS (continued)

ASSISTANCE LISTING 93.569 – COMMUNITY SERVICES BLOCK GRANT

FEDERAL AWARDING AGENCY: U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
PASS-THROUGH ENTITY: TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FEDERAL GRANT AWARD NUMBERS: 2101TXCOSR AND 2201TXCOSR
PASS-THROUGH ENTITY IDENTIFYING NUMBERS: 61220003647 AND 61230003800

FINDING NO. 2023-002: ALLEGED USE OF FEDERAL FUNDS IN FRAUDULENT MANNER

Condition: On August 11, 2023, the Organization's Chief Executive Officer and Chief Financial Officer received electronic communication from an anonymous email account alleging that the Organization's Interim Assistant Client Services (CS) Manager was engaged in illegal and dishonest activities. Based upon this initial predication, the Organization put together a Fraud Investigative Team who reviewed relevant financial records, studied case file documents, and interviewed CS personnel. The Investigative Team discovered that two (2) employees, the Interim CS Assistant Manager and a Quality Assurance (QA) Specialist, colluded to defraud the Organization of approximately $56,680, over the course of six (6) months. Their actions consisted of, but was not limited to the formation of fake management companies to receive rental assistance payments from non-existent and former clients; the manipulation of leases and pay statements to secure job placement and Transition Out of Poverty incentives; the circumvention of established procedures and protocols to obtain rental assistance payments for their friends and family members; and the re-creation and dissemination of the Organization's communication notifications to unsuspecting applicants luring them to send their personal information to a fake email address.

Criteria: Title 2 U.S. Code of Federal Regulations Part 200, Subpart D, Section §200.302 (4), *Financial Management*, communicate expectation for effective control over, and accountability for, all federal funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes.

Cause: Personnel involved in fraudulent activities were part of CSBG program management who colluded with others to override controls for personal financial gains.

Perspective Information: The Organization took initial steps to mitigate the fraud by terminating the persons responsible for improper conduct. However, emergence of evidence by a forensic review of client files housed internally and in the NewGen Case Management System indicated patterns of behavior of additional schemers who were not employees of the Organization. Formal reports have been filed with the Federal Bureau of Investigation, Houston Police Department, and Harris County District Attorney's office to pursue all parties complicit in the misappropriation of funds.

Questioned Costs: Per the initial assessment made by the Investigative Team, it was estimated that the Organization was defrauded for $56,680 ($50,680-CSBG funds, $6,000 Unrestricted funds), over the course of six (6) months. The Organization submitted insurance claims for $55,680, the amount determined to be fraudulent rental assistance payments based on documentation reviewed by the Investigative Team. The Organization repaid $50,680 to Texas Department of Housing and Community

Affairs (TDHCA), the Organization's pass-through entity for CSBG grant, on April 30, 2024. Additionally, the investigation is still ongoing with local and federal law enforcement agencies.

Effect or Potential Effect: Misappropriation of grant funds provided under CSBG Program.

Identification of Repeat Finding: Not applicable since this is a new finding.

Recommendation: We recommend that management monitor results of ongoing investigation with local and federal law enforcement agencies, closely coordinate with TDHCA for additional guidelines, and implement mitigating operating controls to strengthen compliance for adherence with pre-established policies and procedures related to conflict of interest and seek to minimize opportunities for employees to engage in fraudulent activities.

Views of Responsible Officials: The Organization is aware that fraud poses a significant risk to the integrity of the federal programs it administers as well as erodes public trust. In the wake of discovering that GCCSA had been compromised by colluders committing fraud, the Organization is committed to combatting fraud by creating an organizational culture and structure conducive to focusing on the following control activities: data-analytics activities, fraud-awareness initiatives, reporting mechanisms, and employee-integrity activities.

MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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Gulf Coast Community Services Association, Inc. (the "Organization") respectfully submits the following corrective action plan for the audit findings reported in the schedule of findings and questioned costs for the year ended September 30, 2023:

ASSISTANCE LISTING 93.569 – COMMUNITY SERVICES BLOCK GRANT

FEDERAL GRANT AWARD NUMBERS: 2101TXCOSR AND 2201TXCOSR
PASS-THROUGH ENTITY IDENTIFYING NUMBERS: 61220003647 AND 61230003800

FINDING NO. 2023-001: NON-COMPLIANCE WITH SPECIAL TESTS AND PROVISIONS RELATED TO TRI-PARTITE BOARD COMPLIANCE AND SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER NONCOMPLIANCE WITH THE RELEVANT SPECIAL TESTS AND PROVISIONS

Planned Corrective Action Plan:

Key members of the Organization's management will work with the Board of Directors to develop a plan for board recruitment, developing, and training to fill the vacant public sector seat and strengthen monitoring of compliance with the CSBG Act, Texas Administrative Code, and corporate bylaws. The results of the monitoring efforts will be reported to the Governance & Operations Committee and/or the Board of Directors at least on an annual basis.

Anticipated Implementation Date: December 31, 2024

Contact Person Responsible for Corrective Action: Dr. Jonita Reynolds, Chief Executive Officer

ASSISTANCE LISTING 93.569 – COMMUNITY SERVICES BLOCK GRANT

FEDERAL GRANT AWARD NUMBERS: 2101TXCOSR AND 2201TXCOSR
PASS-THROUGH ENTITY IDENTIFYING NUMBERS: 61220003647 AND 61230003800

FINDING NO. 2023-002: ALLEGED USE OF FEDERAL FUNDS IN FRAUDULENT MANNER

Planned Corrective Action Plan:

The Organization is committed to combatting fraud by creating an organizational culture and structure conducive to focusing on control activities, fraud-awareness initiatives, reporting mechanisms and employee integrity activities including:

MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2023

- Revise programmatic and departmental approval authority-related guidelines designed to counter the previously encountered fraud schemes.
- Maximize the functionality of the existing client software systems (e.g., NewGen and Fastrack) to minimize the dependency on external documents.
- Use multiple methods to reinforce key antifraud messages through education and training on an ongoing basis to increase managers' and employees' awareness of potential fraud schemes.
- Provide a hotline and other options for potential reporters of fraud to communicate and ensure that the Organization's stakeholders (e.g., employees, vendors, program beneficiaries, and the public) are aware of the Organization's access points to report potential fraud.
- Implement mandatory virtual conflict of interest trainings.
- Develop a board-approved policy regarding the Organization's employees receiving services.
- Revise the Conflict-of-Interest Policy in the Employee Handbook to serve as a coaching guide that clearly conveys that anyone in the Organization may develop a conflict of interest, whether they are entry-level or a member of the leadership team.

Anticipated Implementation Date: December 31, 2024

Contact Person Responsible for Corrective Action: Dr. Jonita Reynolds, Chief Executive Officer

Dr J Wallace Reynolds

June 11, 2024

Dr. Jonita Wallace Reynolds, CEO

Date

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

There were no audit findings reported in the Schedule of Findings and Questioned Costs for the year ended September 30, 2022.