SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER
AUDIT DIVISION

Joseph Sawicki, Jr.
Comptroller

An Audit of
Never Alone, Never Afraid, Inc.
Emergency Housing Services
For the Period
November 1, 2006 through October 31, 2007

Audit Report No. 2014-19
Date Issued: December 30, 2014

SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER

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LETTER OF TRANSMITTAL

August 25, 2014

Ms. Wendy Falanga, Executive Director
Never Alone Never Afraid, Inc.
14 Herkimer Street
Mastic, N.Y. 11950

Dear Ms. Falanga:

In accordance with the authority vested in the County Comptroller by Article V of the Suffolk County Charter, a performance audit was conducted of the Emergency Housing Services Program (the County Program) provided by Never Alone, Never Afraid, Inc. (the Agency), having its principal administrative office at 14 Herkimer St., Mastic, New York. The Agency's contract (the County Contract) to provide Emergency Housing Services was administered by the Suffolk County Department of Social Services (DSS).

The objective of the examination was to determine whether the expenses and revenues reported on the Agency's Homeless Shelter Provider Financial Statements present fairly, in all material respects and in accordance with all applicable contract provisions, laws and regulations, the reimbursable expenses that were incurred and the funding that was recognized and/or received on behalf of the County Program for the period November 1, 2006 through October 31, 2007.

With the exception of the external peer review requirement, we conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Such standards require that we plan and perform our audit to adequately assess those operations that are included in our audit scope. Further, these standards require that we understand the internal control structure of the Agency and the compliance requirements stated in laws and regulations that are significant to our audit objectives.

An audit includes examining, on a test basis, evidence supporting the transactions recorded in the accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings and recommendations.

The accompanying Statement of Net Audit Adjustment and the related Statements (collectively referred to as the Statements) for the period November 1, 2006 through October 31, 2007 were prepared for the purpose of reporting revenues and reimbursable expenses resulting from the Agency's operation of the County Program. As described in Note 1 (p. 33), the Statements were prepared in conformity with the accrual basis of accounting and the financial reporting requirements of the Suffolk County Department of Social Services' Reimbursable Cost Manual for Not-For-Profit Shelters (RCM). The RCM specifies the expenses that DSS will and will not accept for reimbursement. Accordingly, the statements are intended to present the expenses that DSS will accept for reimbursement, which may not be a complete presentation of the Agency's expenses in accordance with generally accepted accounting principles.

The audit identified material instances of noncompliance with regulations and contractual requirements and reportable internal control deficiencies. In addition, the Statements disclose that, for the period November 1, 2006 through October 31, 2007, the County Program's revenue exceeded the related expenses by $228,967. In addition, the Statements disclose related prior period adjustments in the amount of $52,731 (Schedule 1, p. 30).

Furthermore, since the audit of the November 1, 2006 through October 31, 2007 period resulted in material expense adjustments, some of which effected subsequent reporting periods, we determined that certain expense classifications should also be subjected to audit testing for the period November 1, 2007 through December 31, 2012. Although our tests of the additional expense classifications will be considerably less in scope than those performed for the November 1, 2006 through October 31, 2007 period, our additional audit procedures, which will be the subject of a separate audit report, will provide a reasonable basis for our findings and recommendations.

Respectfully submitted,

Office of the County Comptroller
Division of Auditing Services

FB/SM:mk

SUMMARY OF SIGNIFICANT FINDINGS

County Funding (p. 9) **–** Our audit of the period November 1, 2006 through October 31, 2007, disclosed an amount due to the County from the Agency of $281,698 (Schedule 1, p. 30). The amount due was the result of $44,154 of excess funding from the audit period; the material instances of non-compliance with the RCM listed below which were comprised of $12,986 of revenue adjustments and $171,827 of expense disallowances (Schedule 2, p. 31), and; related prior period expense disallowances in the amount of $52,731 (Schedule 1, p. 30).

Compliance with Laws, Regulations and Contracts - Our audit disclosed the following instances of noncompliance that are material to the subject matter and are required to be reported under government auditing standards (p. 10):

- Salaries/Wages, Fringe Benefits and other expenses are over-reported by $30,039 due to inappropriate charges to the County Program. In addition, $18,553 of related expenses that were reported in prior periods is also disallowed. The disallowances included wages and the related fringe benefits that did not comply with the RCM or were not commensurate with the associated level of services; sales tax on purchases even though the RCM dictates that sales tax is not an allowable expense; cell phone acquisitions and other expenses that were unreasonable and/or excessive; expenses that were personal in nature; vehicle and other acquisitions that were not preapproved by DSS as directed by the RCM, and; a substantial furniture acquisition that was not present at the homeless shelters upon physical inspection as well as other expenses that did not benefit the County Program (p. 10).

- The Agency's fixed asset/depreciation schedule contained numerous inaccuracies that impeded the Agency's ability to effectively safeguard assets and to comply with the RCM. The inaccuracies also caused the double reporting of $11,676 of expenses during the period of audit as well as $12,129 of expenses that were double reported in the prior period (p. 13).

- Salaries/Wages, Fringe Benefits and other expenses are over-reported by $18,541 due to costs that were not supported by sufficient documentation. In addition, $22,049 of related expenses that were reported in prior periods is also disallowed. The disallowances included a furniture acquisition, a laptop computer, a vacuum, long distance telephone charges and insurance for which the Agency did not provide any original third party documentation such as invoices and receipts. The disallowances also included the acquisition of a fence, carpeting, numerous American Express and petty cash charges and the services of an outsourced CFO for which the documentation provided by the Agency did not provide sufficient details to determine the reasonableness and propriety of the expense. (p. 14).

- Numerous reported expenses were improperly classified as either Administrative expenses or Direct Program expenses which contributed to audited Administrative costs exceeding 20% of audited Direct Program costs by $102,341 (p. 17).

- The Agency did not report all expenses on the accrual basis of accounting (p. 18).

- Written documentation supporting the provision of contractually mandated case management services was not found in all client files (p. 19).

Internal Controls – Our review of internal controls disclosed the following reportable conditions (p. 20):

- Salaries/Wages, Fringe Benefits and other expenses are over-reported by $9,230 of mathematical inaccuracies and accounting errors that were the direct result of a severe lack of segregation of duties in addition to other material weaknesses in the Agency's system of internal controls relative to the processing of program expenses (p. 20).

- Employee time and accrual records and personnel files were not adequately reviewed for accuracy and for compliance with the Agency's personnel policies and procedures handbook (handbook) and the requirements of the RCM, resulting in undetected errors (p. 22).

- The Agency did not have an adequate review process over the recording of transactions to provide assurance that all transactions were properly classified (p. 25).

- The severe lack of segregation of duties related to the Agency's processing, receipt and recording of program revenue increases the risk that defalcation could occur without detection (p. 27).

GENERAL INFORMATION

Never Alone, Never Afraid, Inc. (Agency) was organized in New York State in 1999 as a nonprofit corporation for the primary purpose of providing temporary housing, intensive services and education as well as ongoing case management and social work for men, women and children who are homeless or displaced in Suffolk County. The Agency's administrative office is located at 14 Herkimer St., Mastic, New York.

The Agency entered into an agreement (County Contract) with the Suffolk County Department of Social Services (DSS) to provide emergency housing services for individuals and families without permanent housing in facilities operated by the Agency. The Agency was also contractually required to provide case management and other supportive services necessary to assist County-authorized program clients in the location and retention of permanent housing.

The term of the County Contract was July 1, 2006 through June 30, 2010 with two, one-year renewal options. Although the County Contract is based on a July 1st through June 30th fiscal year, the Agency reported the results of operations based on a fiscal year ending October 31, 2007. Our examination, therefore, was conducted for the 12-month fiscal period of November 1, 2006 through October 31, 2007.

During the period of audit, the Agency operated three Adult Family Shelters or "Congregate Shelters" pursuant to the County Contract. The Congregate Shelters, which were located in Mastic, Shirley and Center Moriches, were structured to provide services primarily to clients age 21 and older with children; however, single female clients age 16 and older without children were also permitted to receive services at this type of shelter.

The County Contract dictates that payment for services rendered to those homeless clients, who are authorized by DSS to receive such services, would be on a fee for service basis. As such, the Agency would be paid a per diem rate multiplied by the number of days each client was housed. DSS also evaluated the clients to determine if they were financially able to contribute a fee toward the cost of their services; the Agency was responsible for collecting any such fees and using the fees as an offset against the Agency's operating expenses.

The Agency's per diem rate for the audit period was determined by DSS based on reviews of the proposed Agency budget and the Agency's prior period reported expenses. The RCM specifies those costs that are allowable and states that costs must be reasonable, necessary and directly related to an adequate program for homeless clients.

The County Contract directs that if at the end of each fiscal year, the Agency's allowable costs are less than the revenue received; the Agency would be obligated to refund the overage to the County. Alternatively, if the Agency's allowable costs exceeded the revenue received; the amount of the deficit would be included in the Agency's current budget. However, should the Agency be making monthly payments to DSS from a previous overpayment, the deficit would first be applied to any remaining balance with the remainder included in the Agency's current budget. During the November 1, 2006 through October 31, 2007 period of audit the Agency reported \$1,075,704 of program related revenue and \$1,031,550 of program related expenses resulting in a reported overpayment in the amount of \$44,154 (Schedule 2, p. 31).

SCOPE AND METHODOLOGY

To accomplish the objectives as stated in the Letter of Transmittal (page 1), we performed the following work:

- Examined the County Contract, the RCM and applicable laws to determine the rules, regulations and other compliance requirements related to the audit objectives.

- Interviewed DSS personnel responsible for financial and programmatic oversight of the County Program. We determined the procedures utilized by DSS relative to the receipt and processing of service billings submitted by the Agency to DSS, the budget development and approval process and the monitoring of shelter facilities and case management activities.

- Interviewed the Agency's management and personnel to determine job duties and to gain an understanding of the internal controls instituted by the Agency to ensure that reported revenues and expenses were in compliance with the requirements of the County Contract and the RCM.

- Interviewed the Agency's independent auditor responsible for the preparation of the Agency's Audited Financial Statements.

- Interviewed the Outsourced CFO responsible for the preparation of the Agency's Homeless Shelter Provider Financial Statements for the audit period.

- Reconciled the revenue reported on the Homeless Shelter Provider Financial Statements to DSS records of revenue payments made to the Agency for services rendered pursuant to the County Contract during the audit period.

- Selected for testing purposes 10% of the homeless clients for which the Agency reported Suffolk County Per Diem Funding during the period of audit. We reviewed support documentation such as case management files, Agency billing invoices, Emergency Housing Sign-in/Shelter Authorization Sheets and DSS vendor remittance statements to ensure that the associated client services were legitimate, adequately documented and in compliance with the County Contract.

- Reconciled the expense classifications recorded in the Agency's general ledger to the expense classifications reported by the Agency on the Homeless Shelter Provider Financial Statements.

- Reconciled the Agency's payroll records to the salaries reported on the Homeless Shelter Provider Financial Statements and to Federal and State payroll tax reporting.

- Selected for testing purposes 130 payroll transactions associated with 43 of the Agency's employees that were reported on the Homeless Shelter Provider Financial Statements. We also selected 267 of reported other-than-personnel expense transactions. We reviewed support documentation such as vendor receipts, vendor invoices, vendor statements, employee time sheets, payroll records, employee personnel files, cancelled checks and bank statements to ensure that the Agency's reported expenses were actually incurred, were incurred on behalf of the County Program, and were in compliance with applicable laws, contracts and regulations.

- Visited each shelter and interviewed program staff. Documented Agency Assets located at each site and the Administrative office.

We utilized a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on operations that have been identified through preliminary planning procedures as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address operations that may be functioning properly.

FINDINGS AND RECOMMENDATIONS

County Funding

Our audit of the period November 1, 2006 through October 31, 2007, disclosed an amount due Suffolk County from the Agency of $228,967 (Schedule 2, p. 31). This amount was the result of the following:

- We found that the Agency reported program revenue in the amount of $1,075,704. However, this amount exceeded reported expenses of $1,031,550 by $44,154 (Schedule 2, p. 31). As dictated by the Agency's Contract with the County, this excess funding must be returned to the County.

- Suffolk County per diem payments reported by the Agency during the period of audit in the amount of $1,075,704 were $9,175 less than the total payments actually made by the County in the amount of $1,084,879, as reflected in DSS's payment records, resulting in under reported revenue in the amount of $9,175 (Schedule 2, p. 31).

- The Agency did not report $919 of required homeless shelter client contributions. The Department determines if, and how much, clients are financially capable of contributing toward the cost of shelter; a required client contribution is then established. The Agency did not report the required client contributions resulting in under reported revenue in the amount of $919 (Schedule 2, p. 31).

- The audit disclosed $2,892 of other income that was reported under another program but related to refunds and other adjustments that pertained to the County Program. As a result, the County Program's revenue was under reported by $2,892 (Schedule 2, p. 31).

- During the period of audit, the Agency reported total program expenses of $1,031,550. The audit determined that the Agency's allowable program expenses were $859,723, resulting in disallowed expenses of $171,827 (Schedule 3, p. 32). Details concerning the expense audit adjustments are included in the Compliance section of the audit report.

Furthermore, the audit of the November 1, 2006 through October 31, 2007 period resulted in material expense adjustments, some of which effected prior reporting periods. As a result, we determined that certain adjusted expense classifications should also be subjected to audit testing for prior periods. The related limited scope, audit procedures disclosed prior period adjustments in the amount of $52,731 (Schedule 1, p. 30). Details concerning the other period adjustments are included in the Compliance section of the audit report.

<u>Compliance</u>

Our examination disclosed the following violations of contract provisions that are material to the subject matter and are required to be reported under Government Auditing Standards:

Salaries/Wages, Fringe Benefits and other expenses are over-reported by $30,039 due to inappropriate charges to the County Program. In addition, $18,553 of related expenses that were reported in prior periods is also disallowed. The Agency must report expenses based on the accrual basis of accounting and the financial reporting requirements of the Suffolk County Department of Social Services (DSS) Reimbursable Cost Manual for Not-For-Profit Shelters (RCM). The costs that DSS will and will not accept as allowable costs are cited in the RCM. The RCM also dictates that reported expenses be reasonable, necessary and directly related to an adequate program for homeless clients. Our audit revealed the following:

- The Agency reported as salaries/wages a $1,569 payment to the Head of Maintenance that purportedly pertained to unused vacation accruals which, as directed by the RCM, is not allowable until the employee's year of termination. Furthermore, the Agency included in one employee's weekly base wages five hours of pay for being available on-call for emergencies that may occur after hours. However, since the Agency did not provide us with any written documentation to support that any additional, after-hour services were provided by this employee, we were unable to verify that the level of additional services was reasonable, necessary and commensurate with the associated $2,001 of reported salaries/wages. As a result, $3,570 of salaries/wages are disallowed as well as $338 of the related Fringe Benefit expense (See p. 33, Notes to Schedule, notes 5 and 6).

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- The RCM directs that costs resulting from violations of or failure by the agency to comply with federal, state and/or local laws and regulations are not allowable. However, we found that the Agency inappropriately reported $206 of Fringe Benefit expense and $180 of Travel expense that related to penalties and interest for the late payment of payroll taxes and a traffic violation received by an employee (respectively). Furthermore, although the RCM directs that payments for sales tax are not allowable, the audit disallowed sales tax reported under Telephone ($1,298), Utilities ($965) and Other ($17) expense. It should be noted that the Agency was exempt from paying sales tax. Accordingly $2,666 of reported expenses that are prohibited by the RCM are disallowed (See p. 33, Notes to Schedule, notes 6, 14, 15, 16 and 17).

- The Agency reported $1,589 of fees, imposed by certain vendors for late payment, under Office ($1,104), Professional Fees ($50), Telephone ($85) and Utilities ($350) Expense. We determined that late fees are avoidable provided that agency expenses are paid on a timely basis and are therefore not a reasonable expense of the County Funded Program. The Agency also reported $2,263 of Telephone Expense related to the acquisition of four cell phones for management employees which we found to be excessive and avoidable since cell phones are generally provided at little or no cost when contracting with a cell phone provider. Consequently, the audit disallowed $3,852 of reported expenses that are unreasonable, unnecessary and/or excessive as well as $373 of late fees that were reported in a prior period which were partially offset by $264 of additional unreported expenses (See p. 33, Notes to Schedule, notes 11, 12, 14, 16 and 17).

- The Agency reported $359 of depreciation expense during the audit period as well as $1,241 during prior periods for refrigerator acquisitions that were deemed personal in nature and therefore prohibited by the RCM. We determined that the refrigerators were not acquired for the County Program since the cost included sales tax even though the Agency is exempt from paying sales tax and generally provides a Sales Tax Exemption certificate to the vendor when the purchase pertains to the County Program. The Agency also reported $209 of Other Expense during the audit period and $5,551 during prior periods for items that were unreasonable, unnecessary and or excessive since they consisted primarily of late fees which as directed by the RCM are non-reimbursable as well as a substantial purchase of bedding which was made at a time when no new facilities were being opened by the Agency and in fact the Agency's Homeless Shelter Program was diminishing in size. As a result, $568 of reported Depreciation and Other Expense is disallowed as well as $6,792 of related prior period expenses, which includes $1,599 of late fees (See p. 33, Notes to Schedule, notes 8 and 17).

- The RCM directs that prior written approval by DSS is required for the acquisition of motor vehicles and for any purchase of furniture, fixtures, equipment, supplies or any item whose cost exceeds seven hundred fifty dollars ($750). We found that although depreciation ($9,880) associated with a $49,400 GMC Yukon Truck as well as insurance ($4,221) and other expenses ($420) for both the GMC and a 1988 Chevy truck were reported by the Agency totaling $14,521, these vehicles were not preapproved by DSS. It should be noted that the cost of the GMC truck was disallowed in DSS' 2005 Annual Fiscal Review of the Agency's expenses. We also found that the Agency reported as Repair and Maintenance expense $1,990 of costs related to the purchase and installation of carpeting which was not preapproved by DSS. As a result, $16,511 of the associated reported expenses are disallowed as well as $9,880 of associated vehicle depreciation and $285 of vehicle repair costs that were reported in the prior period (See p. 33, Notes to Schedule, notes 8, 10, 11, 13 and 17).

- The Agency immediately expensed in the year of acquisition $9,000 of a $10,000 furniture purchase even though the RCM directs that items with a useful life greater than a year must be capitalized. Although this error was detected and corrected during DSS' Annual Fiscal Reviews performed for 2004 and 2005, the Agency did not include these costs in reported Depreciation Expense for the audit period, as well as the prior fiscal year. During a fixed asset inspection performed at the homeless shelters we found that the existing furniture was old and in disrepair and could not be traced to the $10,000 acquisition. Discussions with DSS case workers who were assigned to the Agency and regularly visited the homeless shelters in the years immediately following this acquisition revealed that they too had observed furniture in used condition, similar to second hand or donated goods. Consequently, the audit disallowed $143 of the associated reported Depreciation Expenses since they did not benefit the County program as well as $2,828 of related expenses that were reported in prior periods. The audit also disallowed other expenses that did not benefit the County program such as $300 of incorporation fees for an affiliated organization that did not provide services to the County program; $120 of bank fees for an account not utilized by the County program, and; $194 of extermination costs for a facility not utilized by the County program when the cost was incurred (See p. 33, Notes to Schedule, notes 6, 8, 11 and 13).

- The Agency inappropriately reported $1,629 for merchandise/services that pertained to the prior period and therefore, pursuant to the RCM, should have been accrued in the prior period. Accordingly, these reported expenses were disallowed. However, since this amount served as an offset to prior period disallowances this instance of non-compliance did not result in a net disallowance of reported expenses (See p. 33, Notes to Schedule, note 11).

Our audit also disallowed $148 of finance charges reported in Office Expense that was associated with reported expenses disallowed as well as $288 of finance charges that related to prior period disallowances (See p. 33, Notes to Schedule, note 11).

Recommendation 1

The Agency should screen expenses to ensure that they are reasonable, necessary and directly related to the program. To be reimbursable, reported expenses must comply with the requirements of the RCM. Written approval must be obtained from DSS, in writing, prior to acquiring merchandise exceeding $750 or agency vehicles.

In addition, the Agency should only report salaries/wages for employees who provide services to the County program. To be reimbursable each employee's salary must be commensurate with the employee's level of services.

The Agency's fixed asset/depreciation schedule contained numerous inaccuracies that impeded the Agency's ability to effectively safeguard assets and to comply with the RCM. The inaccuracies also caused the double reporting of $11,676 of expenses during the period of audit as well as $12,129 of related expenses that were double reported in the prior period. The RCM directs that the Agency's fixed asset/depreciation schedule must include, but not be limited to a description of the asset, date of purchase, sources of purchase, cost, estimated life, current location of the asset, and disposal information. Large equipment purchases such as appliances must also have the manufacturer, brand, model number and serial number or other unique identifier listed. Furthermore, depreciation must be determined utilizing the straight-line method and the useful lives dictated by the RCM. Our audit disclosed the following:

- The RCM directs that, with the exception of real property and vehicles, the Agency may elect to expense purchases in the year of acquisition subject to certain limitations. Accordingly, the Agency fully expensed and reported in a prior period the cost of 10 assets. However, we found that these assets were also recorded on the fixed asset/depreciation schedule and were inappropriately depreciated in each subsequent fiscal year thus double reporting the associated costs. Consequently, $11,676 of the associated Depreciation Expense reported in the audit period is disallowed as well as $12,129 of related depreciation costs that were reported in prior periods (See p. 33, Notes to Schedule, note 8).

- The RCM dictates that furniture & equipment purchases must be depreciated utilizing a 7 year useful life and that computer equipment must be depreciated utilizing a 3 year useful life. We found that the Agency erroneously depreciated 11 items of furniture and equipment over 5 years and 2 items of computer equipment over 5 years. However, since these assets are currently fully depreciated, we determined that it would be more efficient to allow the depreciation expense determined based on incorrect useful lives, rather than require the Agency to revise the respective financial statements. As a result, this material instance of non-compliance did not result in a disallowance of reported expense.

- The Agency's fixed asset/depreciation schedule did not reflect the current location, disposal information, model number and serial number of the fixed assets as required by the RCM. As a result, we were unable to effectively identify many of the fixed assets reflected on the schedule during our fixed asset inspection. It should be noted that this material instance of non-compliance did not result in a monetary audit adjustment.

Recommendation 2

To effectively safeguard fixed assets from loss or damage and to ensure that they are being used for their intended purposes the Agency's fixed asset/depreciation schedule must:

- Contain sufficient detail to distinguish between assets upon physical inspection;
- Be periodically compared to the actual inventory on hand to ensure its accuracy;
- Comply with the requirements of the RCM regarding depreciation method and asset useful lives;
- Be routinely adjusted for asset acquisitions and dispositions.

Salaries/Wages, Fringe Benefits and other expenses are over-reported by $18,541 due to costs that were not supported by sufficient documentation. In addition, $22,049 of related expenses that were reported in prior periods is also

disallowed. The Agency was contractually required to maintain full and complete records of services under the County Contract for a period of seven years. However, the Agency reported numerous expenses for which it did not provide us with any substantiating documentation or the documentation provided did not contain sufficient details to determine if the expense benefited the County program or complied with applicable laws, contracts and regulations. As a result, since the RCM directs that the County of Suffolk retains the right to disallow any costs that are not properly or adequately documented, the following audit adjustments were necessary:

- Salaries/Wages in the amount of $123 and $11 of the related fringe benefits are disallowed because the Agency did not provide sufficient documentation, such as detailed notations in the employees personnel file or payroll records, indicating the specific days and hours that comprised 9.5 hours of compensatory time that was noted on a time sheet as due to the employee (See p. 33, Notes to Schedule, notes 5 and 6).

- Reported Depreciation Expense in the amount of $4,318 as well as the related prior period depreciation expense of $12,791 is disallowed for the following inadequately documented fixed asset acquisitions (See p. 33, Notes to Schedule, note 8):

    - The only documentation corroborating the purchase and installation of a $10,302 fence was a proposal, with no supporting invoice, which reflected an address that was not a shelter location. Accordingly, reported Depreciation Expense in the amount of $1,893 as well as $8,241 of related prior period depreciation expense is disallowed.

    - The only documentation corroborating the purchase and installation of $3,300 of carpeting was a written estimate, with no supporting invoice, for $6,000 and a check stub payable to a different vendor. As a result, reported Depreciation Expense in the amount of $660 as well as $440 of related prior period depreciation expense is disallowed.

    - The Agency did not provide any documentation supporting the acquisition of a $490 vacuum, $9,030 of furniture and a $1,887 laptop computer. In addition, we were unable to locate these items during our fixed asset inspection. As a result, reported Depreciation Expense in the amount of $1,765 as well as $4,110 of related prior period depreciation expense is disallowed.

- A $764 increase in monthly general liability and auto insurance which was not supported by any substantiating documentation is disallowed (See p. 33, Notes to Schedule, note 10).

- Reported Office Expense in the amount of $29 is disallowed because it was not substantiated by any written documentation. In addition, prior period office expense of $1,329 is disallowed, $874 of which related to credit card purchases for which the Agency did not provide original vendor receipts. The $455 balance related to an automotive repair that was supported by a vendor invoice that did not identify the vehicle repaired (See p. 33, Notes to Schedule, note 11).

- Reported Other Expense in the amount of $1,135 is disallowed because it relates to $722 of petty cash purchases for which the Agency did not provide any written documentation or the documentation provided did not contain sufficient detail or pertinent information to assess the nature of the expense; a $230 eBay transaction which was missing pertinent information necessary to determine the propriety of the charge and a $183 general journal charge for which the Agency did not provide any documentation to substantiate the nature of the charge. In addition, $7,929 of prior period Other Expense is disallowed since it pertains to credit card purchases for which the Agency did not provide the original vendor invoice; only provided a vendor order form which did not appear to have been submitted to the vendor and which did not match the individual charges to the credit card, or; only provided a vendor order form which did not appear to have been submitted to the vendor. It should be noted that several of the items listed on the documentation appeared personal in nature, such as the purchase of king size sheets when none of the shelters have king size beds. In addition, all of the charges included sales taxes when the Agency is tax exempt (See p. 33, Notes to Schedule, note 17).

- Telephone Expense in the amount of $161 is disallowed because the Agency did not provide any documentation to support long distance charges as required by the RCM (See p. 33, Notes to Schedule, note 14).

- Professional Fees in the amount of $12,000 is disallowed because the monthly invoices for CFO services billed by an independent Certified Public Accountant did not provide sufficient detail, such as, the contracted hourly billing rate, the number of hours billed for each service or the nature and extent of the services billed. Although the monthly fee of $1,000 agreed to the underlying contract, the contract also did not specify the nature and extent of the contracted services (See p. 33, Notes to Schedule, note 12).

Recommendation 3

The Agency should ensure that all documentation supporting the expenses reported for the Suffolk County program is secured and retained for a period of seven years as required by the County. In addition, original source documentation must contain sufficient detail to justify the cost as an expense of the County program.

Numerous reported expenses were improperly classified as either Administrative expenses or Direct Program expenses which contributed to audited Administrative costs exceeding 20% of audited Direct Program costs by $102,341. The RCM dictates that those expenses that are directly related to the operation of the program be classified as Direct Program expenses, while those that relate to the management and administration of the agency be classified as Administrative expenses. The RCM also directs that Administrative expenses must not exceed 20% of audited Direct Program expenses (Administrative Cap). However, our audit procedures revealed that the Agency's method of classifying administrative and direct costs was not always supported by adequate documentation; therefore, audited costs were examined and a determination was made as to the proper classification within each expense category. We found that certain expenses associated with the Agency's administrative staff and facility were improperly reported as Direct Program expenses while other reported expenses were improperly reported as Administrative expense. The necessary reclassifications consisted of the following:

Direct Program Expense reclassified as Administrative Expense	
Salaries	$ 31,151
Fringe Benefits	3,916
Insurance	5,612
Office	5,339
Professional Fees	23,517
Rent	19,500
Utilities	7,060

Administrative Expense reclassified as Direct Program Expense	
Deprecation	2,762
Interest	824
Repairs and Maintenance	196
Telephone	3,608

Although the reclassifications had no effect on the associated account balances, the reclassifications, as well as all other audit adjustments, did result in audited administrative costs exceeding 20% of audited direct program costs, which is prohibited by the RCM. Consequently, $102,341 of excessive administrative expenses is disallowed (See p. 33, Notes to Schedule, note 19).

Recommendation 4

The Agency should screen all reported expenses to ensure that those expenses that directly relate to the operation of the program are classified as Direct Program expenses and those that relate to the management and administration of the agency are classified as Administrative expenses. In addition, the Agency should ensure that administrative costs do not exceed 20% of the Agency's direct program related costs.

The Agency did not report all expenses on the accrual basis of accounting. The RCM directs that accounting records must be maintained on an accrual basis with proof of payment provided in the subsequent accounting period. However, we found that some of the Agency's reported expenses should have been reported in another fiscal year. Although these expenses should have been accrued in the period in which the liability was incurred, since we verified that this expense was incurred on behalf of the County Program, we determined that it would be more efficient to allow the expense in the period of audit rather than require the Agency to revise the affected financial statements. As a result, this material instance of non-compliance did not result in a disallowance of reported expense.

Recommendation 5

The Agency should maintain their accounting records on the accrual basis with proof of payment provided in the subsequent accounting period.

Written documentation supporting the provision of contractually mandated case management services was not found in all client files. The Agency is contractually required to provide case management services to each client with the primary goal of acquisition of permanent housing at the earliest possible time. To achieve this goal, case management services must consist of client needs assessments, independent living plans and permanent housing searches evidenced by written documentation maintained in each client file. Moreover, these client files and all of the associated written documentation supporting the services provided pursuant to the County Contract must be maintained for a period of seven years. However, our review of client files revealed the following:

- Eight of the 15 (53%) client's files/records tested did not contain the Client Needs Assessment.
- Seven of the 15 (47%) client's files/records tested did not contain the Permanent Housing Search Documentation.
- Two of the 15 (13%) client's files/records tested did not contain the Independent Living Plans.

Recommendation 6

All clients should be provided with case management services with the primary goal of the acquisition of permanent housing, at the earliest possible time. Additionally, all client files should contain written documentation supporting the performance of these services in compliance with contract requirements. This, and all other documentation supporting the services provided pursuant to the County Contract, must be maintained for a period of seven years.

Internal Control

Our review of the Agency's internal controls that are material to the subject matter disclosed the following deficiencies that are required to be reported under Government Auditing Standards:

Salaries/Wages, Fringe Benefits and other expenses are over-reported by $9,230 of mathematical inaccuracies and accounting errors that were the direct result of a severe lack of segregation of duties in addition to other material weaknesses in the Agency's system of internal controls relative to the processing of program expenses. Our audit disclosed the following:

- The Assistant Director opens the mail (which is not date stamped or logged in), reviews the invoices, writes out the checks, posts the payment into QuickBooks and uses the Executive Director's signature stamp on the checks. According to the Assistant Director the signature stamp and blank checks are kept in an unlocked file cabinet in her office; however, both the file cabinet and her office door are purportedly locked whenever she leaves the building. It should be noted that the Assistant Director performs these functions with no documented second-party verification by an Agency employee independent of the processing function.

- The Agency's petty cash fund is maintained in an unlocked box in the Assistant Directors office during the day. In addition, the Agency does not require employees to sign for petty cash funds received prior to an acquisition.

- The Agency's outsourced full charge bookkeeper has access to the Assistant Director's computer and the Assistant Director's password in order to enter journal entries and perform the bank reconciliations. However, this individual also has access to the Agency's blank checks and the Executive Director's signature stamp.

- Signed paychecks that have not yet been picked up by the employees at the Agency's administrative office are kept in an unlocked mail bin next to the Administrative Assistant's desk.

These material weaknesses in internal controls significantly increase the risk that defalcations could occur without detection. In addition, we found that some of these weaknesses permitted the recording, processing, and reporting of transactions that included mathematical inaccuracies and accounting errors such as the following:

- Certain employees' wages were determined based on incorrect rates of pay and the incorrect number of hours worked. As a result, over reported Salaries/Wages and the related Fringe Benefit Expense in the amount of $430 and $45, respectively, are disallowed (See p. 33, Notes to Schedule, notes 5 and 6).

- The Agency incorrectly reported the payment of employee payroll tax withholdings as Worker's Compensation Insurance Expense and erroneously determined prepaid Worker's Compensation insurance expense utilizing an incorrect policy premium and incorrect policy payments thus over reporting Fringe Benefit Expense by $112 and $500 respectively. The Agency also reported FICA Expense that was not proportionate to the related salaries/wages thus over reporting Fringe Benefit Expense by $486. Accordingly, $1,098 of reported Fringe Benefit Expense is disallowed. (See p. 33, Notes to Schedule, note 6).

- The number of hours that an independent contractor worked was calculated incorrectly. Accordingly, the resulting $108 of over reported Consultant Expense is disallowed (See p. 33, Notes to Schedule, note 7).

- The Agency made numerous errors when calculating the Insurance Expense accruals and prepaids. When compared to audited Insurance Expense, determined utilizing the correct criteria, we found that a $4,867 adjustment is necessary to disallow the resulting over reported Insurance Expense (See p. 33, Notes to Schedule, note 10).

- The Agency incorrectly reported a $1,447 reversal of a prior period adjustment to FICA Expense as Office Expense. Accordingly, the resulting $1,447 of over reported Office Expense is disallowed. It should be noted that since audited FICA expense was determined by multiplying audited Salaries/Wages by the FICA tax rate of 7.65%, no adjustment to FICA Expense is warranted (See p. 33, Notes to Schedule, note 11).

- The documentation provided by the Agency supporting $1,235 of petty cash payments that were purportedly made during the audit period pertained to transactions that occurred in either a prior or subsequent period. Since petty cash is primarily used for current out of pocket expenses that are reimbursed in a reasonable time period, we believe that the related documentation pertained to transactions that were reported in another period. Accordingly, $1,235 of the related over reported Other Expense is disallowed (See p. 33, Notes to Schedule, note 17).

- The Agency erroneously accrued at the end of the year telephone costs that were already paid prior to the year end. Although reported Telephone Expense was consequently over reported during the period of audit, since the accrual was duly reversed in the subsequent period thus understating the expense in the following year no monetary adjustment was deemed necessary

Recommendation 7

To ensure that transactions are accurately recorded in the accounting records the Agency must strengthen internal controls as follows:

- Segregate the duties of the review, the recording and the payment of Agency expenditures. Individuals responsible for the recording of Agency transactions in the accounting records must not have access to Agency funds.

- Establish a system of documented second-party verification which is performed by an Agency employee independent of the related processing functions.

- Secure petty cash in a safe or lockbox which can only be accessed by designated employees. A record of petty cash funds received prior to an acquisition must be maintained by the petty cash custodian and must be signed by the receiving employee.

- All confidential information such as personnel records, payroll records and the Agency's original books of entry must be retained in a secure location. Access to the records must be limited to employees for whom the records are necessary to perform their specified job duties.

Employee time and accrual records and personnel files were not adequately reviewed for accuracy and for compliance with the Agency's personnel policies and procedures handbook (handbook) and the requirements of the RCM, resulting in undetected errors. Our audit testing of forty-three of the Agency's employees revealed the following weaknesses in the Agency's internal controls:

- Six of the Agency's employees used sick time that had not yet been earned even though this practice is prohibited by the handbook.

- The Agency recorded accrued sick time for twenty-four per diem employees even though the handbook dictates that per diem employees are not afforded any benefits other than wages.

- The employee check stubs, which are the Agency's primary source document for monitoring the employees' leave time accruals, were not always accurate.

    - Vacation accruals were reduced on an employee's check stub; however, the employee's time sheet indicated that no such time was taken.

    - The time sheet for one employee indicated the employee had used eight hours of sick time; however the sick accruals were not reduced on the employee's check stub.

    - An employee's vacation accrual amount was not indicated on the check stub for one pay period.

- Although the Agency's employee handbook prohibits the use of paid leave time until it has been accrued, two of the Agency's employees used vacation time that had not yet been earned. It should be noted that one of these employees was a per diem employee which, according to agency practice, can accrue vacation time but cannot use it until they become part or full time.

- Although the Agency duly deducted sixteen hours of vacation time from one employee's vacation accruals, these hours were erroneously added back thus overstating the employee's accruals.

- Although the Agency's Employee Handbook directs that all part time employees receive twenty-four hours vacation time per anniversary year, we found that one part time employee accrued thirty-five hours of vacation time during the audit period.

- The employee's job title was either missing from the personnel file or the title reflected in the file did not agree to that reflected on the Homeless Shelter Provider Financial Statements for sixteen employees. Additionally, the rate of pay was either not indicated in the file or the rate reflected in the file did not agree to the Agency's payroll records for thirty-one employees. As a result, it was necessary to verify this information through alternate means.

- The Agency used an incorrect social security number for one employee when preparing the Federal form W-2.

- Two of the employee personnel files did not contain sufficient documentation supporting the amounts that were garnished from their wages for child support and a defaulted student loan.

- Although the RCM directs that employee time sheets must be signed by the employee and a supervisor, we found that the shelters' timesheets were primarily signed and reviewed by the Agency's Administrative Assistant rather than the employee's supervisor. It should be noted that the Administrative Assistant, who routinely worked in the administrative office, based her review and approval on shelter sign-in logs and a video surveillance system rather than on observation.

- The yearly maximum of three days of sick time accrued for 4 administrative employees (the Executive Director and three family members - the Assistant Director, the Head of Maintenance and the Program Director) was not zeroed out on December 3 of each year as it was with all other employees who accrue sick time, permitting them to accrue more than the maximum. In addition, although the accrued sick time taken by these employees was recorded on the time sheets, it was not deducted from the time and accrual records which permitted 3 of these administrative employees to use more sick time than the three day maximum. According to the Agency's Executive Director, since these employees are considered exempt and are paid a weekly salary they should receive full pay regardless of the number of hours they work.

Recommendation 8

To ensure that employee time and accrual and personnel records are accurate, complete and in compliance with the Agency's personnel policies and procedures handbook and the requirements of the RCM, a responsible Agency employee should periodically review:

- Each employee's usage and accumulation of accrued benefit time to ensure that the Agency's personnel policies and procedures are being consistently and uniformly applied to all employees and that documentation supporting accrued benefit time is sufficiently maintained for all employees.

- Each employee's personnel file to ensure that the files contain current and accurate information such as employee job titles, voluntary and mandatory deductions and rates of pay.

- Employee time sheets to ensure that all employees are completing and signing a bi-weekly time sheet all of which must be reviewed and signed by the employee's supervisor as directed by the RCM.

The Agency must ensure that this and all other documentation supporting the expenses reported for the County Program is secured and retained for a period of seven years as required by the County Contract.

The Agency did not have an adequate review process over the recording of transactions to provide assurance that all transactions were properly classified. Our audit revealed the following:

- The Agency incorrectly classified as Fringe Benefit Expense $3,800 of fees related to the administration of the Agency's pension plan which should have been classified as Professional Fees. In addition, an $8,089 adjusting entry related to Worker's Compensation Expense was incorrectly classified as General Insurance Expense. We reclassified these transactions accordingly resulting in an $11,889 decrease to reported Fringe Benefit Expense (See p. 33, Notes to Schedule, note 6).

- The Agency incorrectly classified as Consultant Expense $7,815 of transactions that pertained to the maintenance, repair or upkeep of the Agency's facilities; a $7,000 net reversal of fees associated with the Agency's independent auditor which should have been classified as Professional Fees and $1,903 of expenses incurred for the safety of the staff, clients and the physical plant which should have been classified as Security Expense. We reclassified these transactions accordingly, resulting in a $2,718 decrease to reported Consultant Expense (See p. 33, Notes to Schedule, note 7).

- Credit card finance charges were incorrectly classified as Office Expense rather than Interest Expense. We reclassified these expenses accordingly, resulting in a $349 increase to reported Interest Expense (See p. 33, Notes to Schedule, note 9).

- An adjusting entry related to Worker's Compensation Expense was incorrectly classified as General Insurance Expense. We reclassified this transaction accordingly, resulting in an $8,089 increase to reported Insurance Expense (See p. 33, Notes to Schedule, note 10).

- The Agency incorrectly classified as Office Expense $151 of materials and other items utilized for the maintenance, repair or upkeep of the Agency's facilities; $349 of credit card finance charges that should have been classified as Interest Expense, and; $343 of unusual expenses that could not be fit into any RCM category and therefore should have been classified as Other Expense. Furthermore, $358 of petty cash payments for certified mail, stamps and other office expenses were incorrectly classified as Other Expense rather than as Office Expense. We reclassified all expenses accordingly, resulting in a $485 decrease to reported Office Expense (See p. 33, Notes to Schedule, note 11).

- A $7,000 net reversal of fees associated with the Agency's independent auditor as well as $3,800 of fees associated with the administration of the Agency's pension plan were incorrectly reported as Consultant Expense and Fringe Benefit Expense, respectively, rather than Professional Fees. In addition, a $4,430 adjusting entry related to fuel oil expenses was incorrectly reported as a reduction to Professional Fees rather than to Utilities Expense. We reclassified these transactions accordingly, resulting in a $1,230 increase to reported Professional Fees (See p. 33, Notes to Schedule, note 12).

- Expense transactions that pertained to the maintenance, repair or upkeep of the Agency's facilities were incorrectly reported as Consultant Expense ($7,815), Office Expense ($151) and Other Expense ($2,231) rather than as Repairs and Maintenance Expense. We reclassified these transactions accordingly, resulting in a $10,197 increase to reported Repairs and Maintenance Expense (See p. 33, Notes to Schedule, note 13).

- The cost of telephones and telephone accessories was incorrectly classified as Other Expense rather than Telephone Expense. We reclassified these costs accordingly, resulting in an $82 increase to reported Telephone Expense (See p. 33, Notes to Schedule, note 14).

- The cost of fuel for the Agency's vehicle was incorrectly classified as Other Expense rather than Travel Expense. We reclassified the associated costs accordingly, resulting in a $744 increase to reported Travel Expense (See p. 33, Notes to Schedule, note 15).

- An adjusting entry related to fuel oil expenses was incorrectly classified as Professional Fees rather than Utilities Expense. We reclassified the associated transaction accordingly, resulting in $4,430 decrease to reported Utilities Expense (See p. 33, Notes to Schedule, note 16).

- Numerous expenses that could be attributed to an RCM expense category were incorrectly reported as Other Expense. These expenses consisted of repairs and maintenance expense in the amount of $2,231 for materials and other items utilized for the upkeep of the Agency's facilities; $358 of petty cash payments for certified mail, stamps and other office expenses; travel expenses in the amount of $744 for fuel for the Agency's vehicle and telephone expense in the amount of $82 for various telephone accessories. In addition, $343 of unusual expenses that could not be fit into any RCM category was inappropriately reported as Office Expense rather than Other Expense. We reclassified the associated expenses accordingly, resulting in a $3,072 decrease to reported Other Expense (See p. 33, Notes to Schedule, note 17).

- Expenses related to the safety of the staff, clients and the physical plant were incorrectly classified as Consultant Expense rather than Security Expense. We reclassified the associated expenses accordingly, resulting in a $1,903 increase to reported Security Expense (See p. 33, Notes to Schedule, note 18).

Recommendation 9

Establishing an adequate review process would help the Agency ensure that transactions are accurately recorded in the Agency's accounting records. On a monthly basis, the Executive Director and the Agency's outsourced CFO should review the month's transactions for proper accounting classification.

The severe lack of segregation of duties related to the Agency's processing, receipt and recording of program revenue increases the risk that defalcation could occur without detection. Our audit disclosed that the Assistant Director prepares and mails the Billing Coversheet to DSS, records the billing information in the accounting records, opens the mail, receives the vender remittance statement and the associated check from DSS, photo copies the check, records the deposit in the accounting records and prepares the deposit slip. It should be noted that the Assistant Director performs these functions with no documented second-party verification by an Agency employee independent of the processing function. We also found that the Assistant Director did not deposit DSS checks in a timely manner. Checks received from DSS were held by the Agency until the Friday before payday before being deposited in the bank.

Recommendation 10

To ensure that program revenue is accurately recorded in the accounting records the Agency must strengthen internal controls as follows:

- Segregate the duties of the processing, the recording and the receipt of program revenue. Individuals responsible for the recording of program revenue in the accounting records must not have access to agency funds.

- Establish a system of documented second-party verification which is performed by an Agency employee independent of the related processing functions.

- Payments from DSS must be deposited daily.

This report is intended solely for the information and use of the Agency's Board of Directors and management, and responsible Suffolk County officials and is not intended to be used by anyone other than these specified parties.

SCHEDULES

Note: The accompanying schedules are an integral part of this report and should be read in conjunction with the Letter of Transmittal (p.1)

Schedule 1

Never Alone Never Afraid, Inc.
Statement of Net Audit Adjustment
For the Period November 1, 2006 through October 31, 2007

Notes	Description	Amount Audited
	Total Amount Due Suffolk County For the Period November 1, 2006 through October 31, 2007 (from Schedule 2):	$ 228,967
	Other Period Adjustments:	
(8)	Depreciation and Amortization Expense	38,869
(11)	Office Expense	646
(18)	Other Expense	13,216
	Total Other Period Adjustments	52,731
	Total Amount Due Suffolk County	$ 281,698

See Notes to Schedules (p. 33)

Schedule 2

Never Alone Never Afraid, Inc.
Statement of Reported and Audited Revenue, Audited Expenses and Net Audit Adjustment
For the Period November 1, 2006 through October 31, 2007

Notes	Description	Amount Reported	Audit Adjustments	Amount Audited
(2)	Suffolk County Per Diem Funding	$ 1,075,704	$ 9,175	$ 1,084,879
(3)	Other Per Diem Revenue/Client Contributions	-	919	919
(4)	Other Income	-	2,892	2,892
	Total Revenues	$ 1,075,704	$ 12,986	$ 1,088,690
	Total Expenditures (from Schedule 3):	1,031,550	(171,827)	859,723
	Total Amount Due Suffolk County For Audit Period	$ 44,154	$ 184,813	$ 228,967

See Notes to Schedules (p. 33)

Schedule 3

Never Alone Never Afraid, Inc.
Statement of Reported and Audited Expenses
For the Period November 1, 2006 through October 31, 2007

Notes	Description	Amount Reported	Amount Audited	Amount Over (Under) Reported
(5)	Salaries/Wages	623,871	$ 619,748	$ 4,123
(6)	Fringe Benefits	90,351	76,464	13,887
(7)	Consultant	2,826	-	2,826
(8)	Depreciation & Amortization	37,427	11,051	26,376
	Food	488	488	-
(9)	Interest	2,395	2,744	(349)
(10)	Insurance	18,719	16,956	1,763
(11)	Office Expense	11,237	6,275	4,962
(12)	Professional Fees	34,998	24,178	10,820
	Rent- Building	131,200	131,200	-
(13)	Repairs & Maintenance	8,417	16,430	(8,013)
(14)	Telephone	17,864	14,139	3,725
(15)	Travel	411	975	(564)
(16)	Utilities	39,927	34,182	5,745
(17)	Other Expense	11,419	5,331	6,088
(18)	Security Expense		1,903	(1,903)
(19)	Administrative Cap Adjustment	-	(102,341)	102,341
	Total Expenses	$ 1,031,550	$ 859,723	$ 171,827

See Notes to Schedules (p. 33)

Notes to Schedules

Never Alone Never Afraid, Inc.

(1) **Basis of Accounting**: The Agency reported expenses and revenues based on the accrual basis of accounting and the financial reporting requirements of the Suffolk County Department of Social Services (DSS) Reimbursable Cost Manual for Not-For-Profit Shelters (RCM). The costs that DSS will and will not accept as allowable costs are cited in the RCM.

(2) Suffolk County Per-Diem Funding is the amount paid to the Agency for services rendered pursuant to its contract with the County. The County paid the Agency on a fee for service basis at a per diem rate multiplied by the number of days each client is housed. The per-diem rate was established by DSS based on a proposed Agency budget and review of Agency expenses. We found that the per diem payments made by DSS exceeded the per diem payments reported by the Agency by $9,175.

(3) Client contributions are payments made by the Agency's clients who have been determined by DSS to be financially capable of contributing to the cost of services rendered. The Agency is responsible for collecting this contribution each month from the clients. We found that the Agency did not report $919 of client contributions which, according to DSS, should have been collected during the period of audit.

(4) The adjustment to Other Income consists of refunds and other adjustments in the amount of $2,892 that pertained to the County Program but was incorrectly reported under another program.

(5) The Salaries/Wages adjustment consists of the following disallowed expenses:

Unallowable cost - cash payouts for unused vacation accruals	1,569
Wages paid for on call hours during which employees did not work.	2,001
Lack of sufficient supporting documentation	123
Accounting errors - mathematical inaccuracies	430
Total	$ 4,123

(6) The Fringe Benefit adjustment consists of the following:

Disallowed Expense due to:	
Fringe benefits associated with salaries/wages that were deemed excessive, unallowable or pertained to on-call hours	$ 338
Fringe benefits associated with insufficiently documented salaries/wages	11
Fringe benefits associated with salaries/wages accounting errors	45
Unallowable costs- penalties & interest due to late payment of payroll taxes	206
Non program related costs	300

Notes to Schedules

Never Alone Never Afraid, Inc.

(6) (Cont'd)

Accounting errors - mathematical & reporting inaccuracies	1,098
Reclassification to/ (from) other accounts	11,889
Total	$ 13,887

(7) The Consultant Fees adjustment consists of the following:

Disallowed Expense due to:	
Accounting errors - mathematical inaccuracies	$ 108
Reclassification to/(from) other accounts	2,718
Total	$ 2,826

(8) The Depreciation and Amortization adjustment consists of the following expense disallowances for the period of audit as well as related costs that were inappropriately expensed in prior periods:

	Prior Period	Audit Period
Lack of sufficient supporting documentation	$ 12,791	$ 4,318
Unallowable costs – personal in nature	1,241	359
Unreasonable cost - Asset not present upon physical Inspection	2,828	143
Costs fully expensed by the Agency in a prior period	12,129	11,676
Costs for vehicles acquired without DSS approval	9,880	9,880
Total	$ 38,869	$ 26,376

(9) The Interest adjustment consists of the following:

Reclassification to/(from) other accounts	$ (349)

(10) The Insurance adjustments consist of the following:

Disallowed expenses due to:	
Insurance for vehicles acquired without DSS approval	$ 4,221
Lack of supporting documentation	764
Accounting errors - mathematical inaccuracies	4,867
Reclassification to/(from) other accounts	(8,089)
Total	$ 1,763

Notes to Schedules

Never Alone Never Afraid, Inc.

(11) The Office Expense adjustments consist of the following audit adjustments for the period of audit as well as the disallowance of related costs that were inappropriately expensed in prior periods:

	Prior Period	Audit Period
Disallowed Expenses due to:		
Lack of sufficient supporting documentation	$ 1,329	$ 29
Cost that were incurred outside of the audit period	(1,629)	1,629
Unreasonable costs - late fees	373	1,104
Non-program related bank fees		120
Finance costs associated with disallowed credit card purchases	288	148
Repair costs for vehicles acquired without DSS approval	285	
Accounting Error – reporting inaccuracies		1,447
Reclassification to/(from) other accounts		485
Total	$ 646	$ 4,962

(12) The Professional Fees adjustment consists of the following:

Disallowed Expenses due to:	
Lack of sufficient supporting documentation	$ 12,000
Unreasonable costs - late fees	50
Reclassification to/(from) other accounts	(1,230)
Total	$ 10,820

(13) The Repairs & Maintenance adjustment consists of the following:

Disallowed expenses due to:	
Cost of carpeting acquired without DSS approval	$ 1,990
Costs for facilities not used by the Program	194
Reclassification to/(from) other accounts	(10,197)
Total	$ (8,013)

(14) The Telephone adjustment consists of the following:

Disallowed expenses due to:	
Excessive cost associated with the purchase of four cell phones	$ 2,263
Unallowable Costs - sales tax	1,298
Unreasonable costs – late fees	85
Lack of supporting documentation	161
Reclassification to/ (from) other accounts	(82)
Total	$ 3,725

Notes to Schedules

Never Alone Never Afraid, Inc.

(15) The Travel adjustment consists of the following:

Disallowed expenses due to:	
Unallowable cost- traffic violation	$ 180
Reclassification to/(from) other accounts	(744)
Total	$ (564)

(16) The Utilities adjustment consists of the following:

Disallowed expenses due to:	
Unallowable costs- sales taxes	$ 965
Unreasonable costs - late fees	350
Reclassification to/(from) other accounts	4,430
Total	$ 5,745

(17) The Other Expense adjustment consists of the following audit adjustments for the period of audit as well as the disallowance of related costs that were inappropriately expensed in prior periods:

	Prior Period	Audit Period
Disallowed expenses due to:		
Lack of sufficient supporting documentation	$ 7,929	$ 1,135
Unallowable costs - sales tax		17
Unallowable costs - personal in nature (garage sale signs, gift wrap, gift baskets, personalized bed comforters, sheets, etc.)	5,551	209
Repair costs related to vehicles acquired without DSS approval		420
Petty cash costs incurred outside the audit period		1,235
Allowance for unreported expenses	(264)	
Reclassification to/(from) other accounts		3,072
Total	$ 13,216	$ 6,088

(18) The Security adjustment consists of the following:

Reclassifications to/(from) other accounts	$ (1,903)

Notes to Schedules

Never Alone Never Afraid, Inc.

(19) Pursuant to the RCM, administrative costs are allowable to the extent that they do not exceed 20% of the Agency's direct program related costs. However, we determined that the Agency's audited administrative costs totaling $245,628 exceeded 20% of audited direct program expenses totaling $716,436 by $102,341. An audit adjustment was necessary to disallow these costs

APPENDICES

APPENDIX A

Exit Conference Report

Auditee: Never Alone Never Afraid, Inc.

The draft audit report was mailed to the Agency on August 25, 2014 with a letter inviting the Agency to submit a formal written response and/or request an exit conference within 30 days of receipt of the report. The letter also directed the Agency to submit a final representation letter by September 20, 2014.

On October 1, 2014, we contacted the Agency by telephone to inform them that both the written response and the final representation letter were overdue. At that time the Agency requested an extension of the time in which to submit a written response to the audit and the final representation letter which was approved by our office on October 2, 2014. The new deadline for the entire process was extended to October 10, 2014.

On October 8, 2014, we received the Agency's preliminary written response to the draft audit report, the representation letter and an e-mail requesting audit documentation related to some of the audit findings prior to scheduling the exit conference. Later that day an inquiry was made by our office to the Agency concerning the specific findings that were being questioned so that the appropriate audit documentation could be made available. We also requested that the Agency set a date for the exit conference during the week of October 20th to ensure the entire process did not extend beyond October 24, 2014.

On October 9, 2014, the Agency requested copies of all audit documentation supporting the draft audit report which were provided to the Agency on October 15, 2014.

On October 22, 2014, the Agency requested an additional two week extension of time in which to meet at an exit conference which was approved by our office on October 24, 2014 with the understanding that we will begin withholding partial payments from current claim submissions until such time that the audit report is finalized and the Agency has entered into a final repayment agreement. The new deadline for the exit conference was extended to November 7, 2014.

The Agency agreed to meet with us on November 6, 2014 to discuss all programmatic issues; however, since its review of the audit documentation had not yet been completed, the Agency requested an additional, subsequent, meeting to fully contest the audit findings. As a result, we granted an additional extension of the time in which to meet at an exit conference provided that the Agency enter into a preliminary repayment agreement with our office requiring the repayment of $10,000 per month until the expiration of thirty (30) days subsequent to the determination has been made by the Department of the final overpayment due the Department by the Agency, as contained in the Final Audit Report. The Agency duly executed the preliminary repayment agreement and the deadline for the exit conference was extended to November 28, 2014.

An exit conference was held with Never Alone Never Afraid, Inc. (NANA's House) on November 25, 2014 to discuss points of contention cited in their preliminary written

APPENDIX A

Exit Conference Report

response to our audit which was received by our office on October 8, 2014. Those in attendance were as follows:

Name	Title	Organization
Frank Bayer	Executive Director of Auditing Services	Audit & Control
Stephen McMaster	Investigative Auditor	Audit & Control
Deborah Bollinger	Auditor	Audit & Control
Wendy Falanga	Executive Director	NANA's House
Marc Pergament	Attorney	NANA's House

We began the exit conference by explaining to the Agency's Executive Director that this was her opportunity to clarify or further explain assertions made in the Agency's preliminary written response. We noted that there were certain audit adjustments that, due to certain contentions referred to in the response, were rescinded from the report. We also emphasized that we would review any additional written documentation provided by the Agency in support of assertions made in the response.

At the exit conference, the Executive Director advised us that the auditing firm engaged to review the audit documentation was not available to attend the exit conference and had not yet completed a comprehensive review of the audit documentation. In addition, based on her cursory review of the audit documentation the Executive Director stated that the preliminary response was no longer pertinent and would have to be revised. At this time we advised the Agency that it had exhausted all available extensions and that no additional extensions or meetings would be granted.

The Agency did not submit a formal response to the report. The Agency's contentions to the audit findings that were expressed in the unofficial response, some of which were discussed at length at the exit conference, are as follows:

1. Cell Phones

The Agency expressed disagreement with the disallowance of costs related to the acquisition of four cell phones. We agree with the Agency's contention that the use of cell phones is an efficient method to monitor the location of all employees who are in travel status on behalf of the Agency in order to reach them in an emergency situation. However, we strongly disagree that the acquisition of four cell phones for $2,263 is reasonable simply because the phones were assigned to employees who were often traveling. We do not believe that the Agency followed purchasing

APPENDIX A

Exit Conference Report

practices that are designed to obtain necessary equipment at the most reasonable price or cost possible for the County Program. As a result, we believe that the related audit disallowance is warranted.

2. Vehicles

At the exit conference, the Agency's Executive Director expressed disagreement with the disallowance of maintenance and insurance costs related to a vehicle, the acquisition of which was not approved by DSS. The Agency contends that although DSS did not approve the vehicle's acquisition, it did agree to pay the insurance and maintenance expenses associated with the vehicle because it was used for the County Program. However, the Agency did not provide us with the written DSS approval to report such costs for the County Program nor did it provide evidence, such as vehicles logs, documenting that the vehicle was used solely for the County program. As a result, no revision to the audit report is warranted.

3. Furniture

The Agency contends that the furniture acquisition disallowed by our audit should not be disallowed merely because it was not present during a physical inspection. The Agency asserts that since it is virtually impossible to keep furniture in good working order for several years at an active homeless shelter, most furniture (with the exception of bed frames) is replaced primarily with donated goods on a yearly basis or less. We agree that in a situation such as this, assets purchased in prior years may not currently be present upon physical inspection. As a result, during the audit, we consulted with DSS case workers that were assigned to the Agency and regularly visited the Homeless Shelter in the year immediately following the purported acquisition. However, since the DSS case workers indicated that the furniture in use at the Homeless Shelters was not new and, in fact, appeared to be in used condition, similar to second hand or donated goods, we believe our audit disallowance is warranted.

4. Other & Vacuum

At the exit conference, the Agency's Executive Director expressed disagreement with the disallowance of costs related to a laptop and a vacuum for which the Agency did not provide original third party supporting documentation. The Agency contends that the laptop and vacuum acquisitions in question should not be disallowed since it has in its possession a laptop hard drive as well as numerous non-working, old or donated vacuums. We believe that although the existence of an asset can be verified through visual inspection, the pertinent financial information reported for the asset can only be verified through a review of original vendor documentation supporting the asset's acquisition. Financial information such as the original cost of the asset, the acquisition date, whether the asset was purchased or donated, whether the asset was

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purchased through alternate sources of funding (grants or donations), etc. is necessary for us to adequately assess the reasonableness and accuracy of the related charges to the County Program. Therefore, since the Agency's did not provide any written documentation at the exit conference supporting the assets' acquisition no adjustment is deemed warranted.

5. Phone Charges

The Agency contends that the sales tax charged on telephone bills which was disallowed by our audit should be allowed. According to the Agency, the costs in question were charged on the telephone bills because the phones at the shelters were listed under the Executive Directors personal name for the safety of domestic violence clients and because the cost of residential phones with taxes was substantially less than a business phone. They also claimed that DSS agreed to approve these charges retroactively at a budget meeting held with the Agency in 2008. The Reimbursable Cost Manual explicitly states that payment for sales tax is unallowable and due to the absence of documentation to support the Agency's claim regarding DSS' retroactive approval of these costs, the audit disallowance is warranted.

6. Fence/Security System

At the exit conference, the Agency's Executive Director expressed disagreement with the disallowance of costs related to the purchase and installation of a fence and a security system. She emphasized that these purchases were mandated by DSS for the Agency to receive approval to use the facility for the County Program. These costs were disallowed because the purchases were not adequately documented by substantiating written documentation. At the exit conference, the Executive Director provided us with additional written documentation supporting the acquisition of the security system. The documentation was reviewed and found to adequately substantiate the reported cost. As a result, we revised the audit report accordingly. However, since no additional third party written documentation was provided for the acquisition and installation of the fence we believe that the related audit disallowance is warranted.

7. CPA Services

At the exit conference, the Agency's Executive Director expressed disagreement with the disallowance of costs related to the purported Chief Financial Officer (CFO) services provided by an independent CPA. The Agency contends that the contract between the Agency and the CPA provided details of the purported services provided by the CPA. However, we found that the documentation provided by the Agency supporting the contracted services of the CPA consisted primarily of a nondescript contract which called for a recurring monthly charge for "CFO services" ($1,000/mo.) and a set fee for the preparation of the Agency's Homeless Shelter Provider Financial

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Statements ($3,000/yr.). Although the Agency did provide monthly invoices for the services that reflected the same monthly charge and verbiage as outlined in the contract they did not include pertinent billing detail such as the hourly billing rate, the number of hours billed or the nature and extent of the services provided and consequently we were unable to determine if the level of services purportedly provided by the CPA were commensurate with the level of funding. Subsequent to the exit conference, the Executive Director provided us with an itemized summary detailing the number of hours worked by the CPA and his assistant as well as the related hourly rate. However, since this document was prepared years after the purported services were provided and since the related rates and hours of service were not agreed upon when the contract was entered into we do not believe that this document is reliable and therefore no revision to the audit report is warranted.

8. Client Contributions

The Agency contends that all payments received from clients were reported and, therefore, the audit should not have recognized any additional client contributions. However, since the Agency did not report any client contributions on the Homeless Shelter Provider Financial Statements, we believe that no such fees were collected from the clients. An inquiry made by our office to DSS concerning those clients who were required to contribute toward the cost of shelter disclosed that the Agency was contractually required to collect $919 of client contributions during the period of audit. Furthermore, the Agency was contractually required to notify DSS of any client that did not submit their contribution so that the client could be removed from the program and the related per diem payments could be stopped. As a result, since the Agency did not comply with these contractual requirements we believe that the audit adjustment is warranted.

9. Other Income

The Agency's contends that funds reported under other income relate to fundraising activities and solicitations that were for the sole purpose of funding non-county expenses such as children's Christmas toys, birthday gifts and school supplies and therefore should not be recognized as an offset to reported expenses. However, we found that the income reported in this account resulted from refunds from the Homeless Shelter's vendors as well as adjustments to the Homeless Shelter's accounts receivable and payroll accounts which we believe pertained to the County Program's expenses and therefore the audit adjustment is warranted.

10. Penalties and Late Payments

The Agency contends that late fees and penalties should not be disallowed by our audit since they were incurred because DSS was generally 30-60 days behind in vendor payments which created a cash flow problem. Although payments from DSS do have a lag of approximately 30 days our review of DSS' payment records revealed

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that during the period of audit the Agency received a steady, monthly flow of funding from the County. Furthermore, our review of the Agency's cash account did not disclose any material or prolonged negative cash balances. We believe that since the Agency has been a homeless shelter provider for many years it should be very familiar with the payment patterns of DSS and therefore should have managed their cash flows accordingly. It should be noted that the Agency operates a BINGO program, the proceeds of which can be used to cover cash shortfalls. As a result, we believe that the audit adjustment is warranted.

11. Other Expenses

At the exit conference, the Agency's Executive Director expressed disagreement with the disallowances categorized by our audit as personal in nature. She emphasized that all items in question were purchased for the County Program and further stressed that she would never purchase items with agency funds for her own personal use. Pursuant to our subsequent review we determined that the disallowances categorized by our audit as personal in nature would be better categorized as unreasonable, unnecessary and or excessive since they consisted primarily of late fees which as directed by the RCM are non-reimbursable as well as a substantial purchase of bedding which was made at a time when no new facilities were being opened by the Agency and in fact the Agency's Homeless Shelter Program was diminishing in size. Although we revised the disallowance description accordingly since we do not believe that the Agency followed purchasing practices that are designed to obtain necessary supplies at the most reasonable cost possible for the County Program, the related audit disallowance is warranted.