SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER
AUDIT DIVISION

Joseph Sawicki, Jr.
Comptroller

A Limited Scope Audit of **Never Alone, Never Afraid, Inc.** **Emergency Housing Services**

For the Period
November 1, 2007 through December 31, 2012

Audit Report No. 2014-20
Date Issued: December 30, 2014

SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER

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TABLE OF CONTENTS

Page

LETTER OF TRANSMITTAL 1

SUMMARY OF SIGNIFICANT FINDINGS 3

GENERAL INFORMATION...5

SCOPE AND METHODOLOGY 6

FINDINGS AND RECOMMENDATIONS...7

SCHEDULES

Schedule 1 Statement of Reported and Adjusted Revenue,
Adjusted Expenses and Net Audit Adjustment
For the Period November 1, 2007 through December 31, 2012 19

Schedule 2 Statement of Reported and Adjusted Expenses
For the Period November 1, 2007 through October 31, 2008…….. 20

Schedule 3 Statement of Reported and Adjusted Expenses
For the Period November 1, 2008 through October 31, 2009............21

Schedule 4 Statement of Reported and Adjusted Expenses
For the Period November 1, 2009 through December 31, 2009 22

Schedule 5 Statement of Reported and Adjusted Expenses
For the Period January 1, 2010 through December 31, 2010.............23

Schedule 6 Statement of Reported and Adjusted Expenses
For the Period January 1, 2011 through December 31, 2011.............24

Schedule 7 Statement of Reported and Adjusted Expenses
For the Period January 1, 2012 through December 31, 2012.............25

APPENDICES

Appendix A Exit Conference Report 33

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 limited scope audit was conducted of the Emergency Housing Services Program (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 (County Contract) to provide Emergency Housing Services was administered by the Suffolk County Department of Social Services (DSS).

A performance audit was conducted of the County Program provided by the Agency for the period November 1, 2006 through October 31, 2007 (Report No. 2014-19). The audit identified material instances of noncompliance with regulations and contractual requirements and reportable internal control deficiencies which resulted in material expense adjustments, some of which effected subsequent reporting periods. It was, therefore, determined that certain reported account classifications should also be subjected to audit testing for the period November 1, 2007 through December 31, 2012.

Our limited scope audit focused upon the expense and revenue transactions recorded in the Agency's general ledger as well as the associated account balances reported on the Agency's Homeless Shelter Provider Financial Statements for the November 1, 2007 through December 31, 2012 period. The Homeless Shelter Provider Financial Statements are the responsibility of the Agency's management. The objectives of the limited scope audit were as follows:

- To determine whether the material instances of noncompliance with regulations and contractual requirements and reportable internal control deficiencies disclosed by our audit of the November 1, 2006 through October 31, 2007 adversely affected the Agency's reported account balances for the period November 1, 2007 through December 31, 2012.

- To ensure that the account balances selected for testing were reported in accordance with the DSS Reimbursable Cost Manual for Not-For-Profit

Shelters (RCM) and the County Contract. The RCM specifies the expenses that the County of Suffolk will and will not accept for reimbursement.

- To determine if the County Program's allowable revenues exceeded the County Funded Program's allowable expenses since such excess revenue, as directed by the County Contract, must be returned to the County.

With the exception of the external peer review requirement, we conducted our limited scope audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. Although our limited scope audit of the subsequent accounting periods was considerably less in scope than the audit performed for the November 1, 2006 through October 31, 2007 period, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying Statement of Reported and Adjusted Revenue, Adjusted Expenses and Net Audit Adjustment and the related Statements (collectively referred to as the Statements) for the period November 1, 2007 through December 31, 2012 were prepared for the purpose of summarizing the audit adjustments disclosed by our limited scope audit with respect to those account balances tested and therefore may not be a complete presentation of the Agency's expenses and revenues in accordance with generally accepted accounting principles and the RCM.

As a result of our limited scope audit procedures, for the period November 1, 2007 through December 31, 2012, it was determined that the Agency was overpaid by Suffolk County in the amount of $1,142,690 (Schedule 1, p. 19). However, it should be noted that the issuance of this report does not preclude our performing a full audit of the Agency's Program, for the period November 1, 2007 through December 31, 2012, at some future date.

Respectfully submitted,

Office of the County Comptroller
Division of Auditing Services

DB/SM

SUMMARY OF SIGNIFICANT FINDINGS

County Funding – As a result of our audit of the period November 1, 2007 through December 31, 2012, we determined that the Agency was overpaid $1,142,690 by Suffolk County (Schedule 1, p. 19). The overpayment resulted primarily from the following audit adjustments:

- Unreported miscellaneous revenue in the amount of $41,944 was recognized because it pertained to the County Program but was inappropriately reported under another program (p. 7).

- Reserve Funds established by the Agency in prior periods in the amount of $86,809, which had not been utilized by the Agency within the four year expenditure period required by the RCM or were utilized without DSS prior approval, were recognized as surplus revenue which must be returned to the County (p. 7).

- Reported costs in the amount of $949,528 (p. 7) were disallowed because they did not benefit the County funded program; were determined to be unreasonable and unnecessary; were not in accordance with the RCM or the County Contract; or were not sufficiently evidenced by supporting documentation.

- The Agency reported $114,409 in excess funding from the audit period which was partially offset by a Reserve Fund contribution in the amount of $50,000 (p. 7).

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 generally accepted government auditing standards (p.8):

- Salaries/Wages, Fringe Benefits and other expenses are over-reported by $619,347 due to costs that are prohibited by the RCM as well as other inappropriate charges. The disallowances include wages and the related fringe benefits associated with employee salaries that exceeded the approved budgeted amount for the position; the accrual of excessive pension expense; expenses that are personal in nature or do not benefit the County Program; vehicle and other acquisitions that were not preapproved by DSS as directed by the RCM; a substantial furniture acquisition that was not present at the homeless shelters upon physical inspection, and; interest payments associated with a loan payable to the Agency's Assistant Director (p. 8).

- Depreciation Expense is over-reported by $2,645 due to costs that were not supported by sufficient documentation. The disallowances included depreciation expense related to a substantial furniture acquisition, a laptop computer, a vacuum; as well as the purchase and installation of carpeting (p.11).

- 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 $323,317 (p. 12).

Internal Controls – Our review of internal controls disclosed the following significant deficiencies (p. 13):

- Reported Fringe Benefits, Depreciation and Amortization and Professional fees Expense are over reported by $4,219 of mathematical inaccuracies and accounting errors (p. 13).

- The Agency did not have an adequate review process over the recording of transactions to provide assurance that all transactions were properly classified (p. 15).

GENERAL INFORMATION

Never Alone, Never Afraid Inc. (Agency), which was organized in New York in 1999 as a nonprofit corporation, 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 Agency's administrative office is located at 14 Herkimer St., Mastic, New York.

A performance audit was conducted of the County Program provided by the Agency for the period November 1, 2006 through October 31, 2007 (Report No. 2014-19). The audit identified material instances of noncompliance with regulations and contractual requirements and reportable internal control deficiencies which resulted in material expense adjustments, some of which effected subsequent reporting periods. It was, therefore, determined that certain reported account classifications should also be subjected to audit testing for the period November 1, 2007 through December 31, 2012.

As a result, we reviewed the general ledger details, the Homeless Shelter Provider Financial Statements and all related documentation submitted to DSS by the Agency for the period November 1, 2007 through December, 2012 to ensure that similar conditions or additional unusual transactions or account classifications did not exist during the subsequent periods.

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 and the RCM to determine the rules, regulations and other compliance requirements related to the audit objectives.

- Obtained from Department of Social Services approvals for purchases over $750 and/or for Reserve Fund usage for the period November 1, 2007 through December 31, 2012.

- Reconciled the General Ledger account balances to the total amount of each Expense classification as reflected on the Homeless Shelter Provider Financial Statements and in total to the Certified Financial Statements for the period November 1, 2007 through December 31, 2012.

- Reviewed each General Ledger account to determine if audit adjustments similar to those disclosed by our audit of the November 1, 2006 through October 31, 2007 were necessary.

- Reviewed the General Ledger Details and Homeless Shelter Provider Financial Statements for the November 1, 2007 through December 31, 2012 period of audit for any unusual transactions or account classifications.

FINDINGS AND RECOMMENDATIONS

County Funding

As a result of our audit of the period November 1, 2007 through December 31, 2012, we determined that the Agency was overpaid $1,142,690 by Suffolk County (Schedule 1, p. 19). The overpayment resulted primarily from the following:

- The Agency's review process to ensure that reported transactions are complete, accurate and properly classified are inadequate. As a result $41,944 of revenue that pertained to the County Program was inappropriately reported under another program. This revenue was comprised of other miscellaneous revenue such as insurance refunds; incorrectly classified journal entries intended to reduce over accrued expenses of the County Program, and other miscellaneous income. As a result, we correctly classified $41,944 of miscellaneous revenue as revenue of the County Program (See p. 26, Notes to Schedule, note 2).

- Pursuant to the RCM, the Agency may establish a Reserve Fund to accumulate excess program revenues for the purpose of building or capital acquisition, capital improvements, renovation, alteration, major repairs or for any purpose that is approved in advance by DSS. Each contribution to the Fund may not exceed $25,000 per year and has a four-year expenditure period, during which time the fund must be used or returned to the County. During each of the periods November 1, 2007 through October 31, 2008 and November 1, 2008 through October 31, 2009 the Agency reported as an offset to excess revenue a Reserve Fund contribution in the amount of $25,000 (Schedule 1, p. 19). In addition, we found that $86,809 of reserve funds that were established by the Agency in prior periods had not been utilized by the Agency within the four year expenditure period or were utilized without the prior approval of DSS. Accordingly, the associated reserve funds are recognized as additional revenue of the County Program (See p. 26, Notes to Schedule, note 3).

- The Agency reported total program expenses of $6,386,389 (See Schedules 2-7, pp. 20-25). The audit determined that the Agency's adjusted program expenses were $5,436,861, resulting in disallowed expenses of $949,528 (See Schedules 2-7, pp. 20-25). Details concerning expense audit adjustments are included in the Compliance and Internal Control sections of the audit report.

- The Agency reported program revenue in the amount of $6,500,798 (Schedule 1, p. 19). However, this amount exceeded reported program expenses in the amount of $6,386,389 (See Schedules 2-7, pp. 20-25) by $114,409. As dictated by the Agency's Contract with the County, this excess funding, net of any Reserve Fund contributions must be returned to the County.

Compliance

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 $619,347 due to costs that are prohibited by the RCM as well as other inappropriate charges. 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 limited scope examination revealed the following:

- Salaries/Wages and the related Fringe Benefits are over-reported by $509,640 and $62,847 respectively due to non-compliance with the contract**.** Although the Agency is contractually required to maintain staff positions and salaries identical to those indicated in the Agency's budget as approved by DSS, our audit revealed numerous instances whereby reported salaries exceeded the approved budgeted amount for the position. Additionally, the position of the Educational Advocate was not approved at all and had been eliminated from the budget by the DSS. As a result, $509,640 of reported Salaries/Wages Expense and $62,847 of the related fringe benefit expenses are disallowed (See p. 27, Notes to Schedule, note 5).

- The RCM directs that accounting records must be maintained on an accrual basis with proof of payment provided in the subsequent accounting period. However, our audit revealed that the Agency's accrual of estimated contributions to the employees' pension plan for the November 1, 2007 through October 31, 2008 period differed from the associated payments made to the plan in the subsequent period. As a result, we determined that since we were reviewing reported expenses for multiple years it would be more efficient to recognize the actual pension contributions paid by the Agency on behalf of the employees rather than to rely on the estimated contributions accrued by the Agency each fiscal year. Accordingly, $8,406 of excessive accrued pension expense is disallowed (See p. 27, Notes to Schedule, note 7).

- Although the RCM dictates that personal expenses are not allowable, we found that the Agency classified as Pension Expense $34 of employee advances which we determined were personal in nature since they did not benefit the Agency. The Agency also reported $359 of Depreciation Expense for refrigerator acquisitions that were deemed personal in nature since they included sales tax. We found that the Agency is exempt from paying sales tax and generally provided a Sales Tax Exemption certificate to the vendor when the purchase pertained to the County Program. Accordingly, $34 of reported Pension Expense and $359 of reported Depreciation Expense is disallowed (See p. 28, Notes to Schedule, note 10 and 11).

- Although the RCM directs that reported expenses must be reasonable, necessary and directly related to an adequate program for homeless clients, we found that the Agency inappropriately included in reported expenses, bank charges associated with the Agency's other program (bingo), which is not part of the County Program. As a result, $269 of reported Office Expense and $126 ($41 and $85) of reported Other Expense was disallowed (See p. 28, Notes to Schedule, note 10).

- The RCM directs that prior written approval by DSS is required for the acquisition of motor vehicles; the purchase of furniture, fixtures, equipment, supplies or any item whose cost exceeds seven hundred fifty dollars ($750), or; membership in a civic association. However, we found the following:

  - Depreciation Expense in the amount of $9,880 as well as $3,768 of insurance expense and $1,049 Repairs and Maintenance expense were reported by the Agency for a $49,400 GMC Yukon Truck which was 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. Accordingly, these expenses are disallowed (See pp. 28 and 30, Notes to Schedule, notes 11 and 17).

  - Depreciation Expense in the amount of $15,903 was reported for a surveillance system costing $10,360 purchased on October 1, 2008; carpeting costing $1,034 purchased on March 18, 2008; an upgrade to the surveillance system costing $8,255 purchased on March 1, 2009, and; carpeting purchased on March 7, 2011 and March 10, 2011 for $1,425 and $ 2,844 respectively. However, since prior approval was not obtained from DSS for the acquisition of these fixed assets the related depreciation expenses are disallowed (See p. 29, Notes to Schedule, note 12).

  - The Agency did not obtain the required prior approval from DSS for $3,370 of merchandise purchased of from a vendor specializing in custom printing of t-shirts and other apparel. Accordingly, $3,370 of reported Other Expenditures is disallowed (See p. 30, Notes to Schedule, note 16,).

- •• The Agency reported as Dues and Subscriptions $1,935 ($955 and $980) related to the cost of membership in civic association for which it did not receive prior written approval from DSS. As a result, $1,935 of reported Dues and Subscriptions is disallowed (See p. 30, Notes to Schedule, note 16).

- The RCM directs that reported expenses be reasonable, necessary and directly related to an adequate program for homeless clients. However, our audit of the November 1, 2006 through October 31, 2007 period, disclosed that furniture purportedly purchased in a prior period was not present in the shelters upon physical inspection nor was it observed by case workers who were assigned to the Agency and regularly visited the sites in the years immediately following the reported purchase. Accordingly $143 of the related Depreciation Expense is disallowed (See p. 28, Notes to Schedule, note 11).

- The Agency accrued interest expense in the amount of $1,618, for the November 2007 to November 2009 period, pursuant to a purported loan payable to the Agency's Assistant Director (Mother of the Executive Director). As a result, since the RCM prohibits interest on borrowing between persons in a conflict-of-interest relationship from being charged to the County Program, $1,618 of reported Interest Expense is disallowed (See p. 30, Notes to Schedule, note 16).

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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, agency vehicles or memberships in civic associations.

In addition, the Agency should only report salaries/wages amounts that do not exceed budgeted amounts approved by DSS.

Depreciation Expense is over-reported by $2,645 (See p. 28, Notes to Schedule, note 11) due to costs that were not supported by sufficient documentation. 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 fixed assets that were acquired in prior periods for which it did not provide us with any substantiating documentation or the documentation provided did not contain sufficient details to determine if the acquisition 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:

- The Agency did not provide any documentation to support depreciation expense reported for a $490 vacuum, $9,030 furniture purchase or a $1,887 laptop computer. As a result, $1,765 of reported 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 $880 is disallowed.

Recommendation 2

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 $323,317. 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, allowable 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	$ 10,950
Fringe Benefits	2,756
Insurance	23,278
Office	20,260
Professional Fees	88,956
Rent	86,984
Repairs and Maintenance	1,107
Utilities	40,861
Administrative Expense reclassified as Direct Program Expense	
Deprecation	5,012
Security	270
Telephone	7,511
Travel	550

Although the reclassifications had no effect on the associated account balances, the reclassifications, as well as all other audit adjustments, did result in adjusted administrative costs exceeding 20% of adjusted direct program costs, which is prohibited by the RCM. Consequently, $323,317 of excessive administrative expenses is disallowed (See p. 31, Notes to Schedule, note 22).

Recommendation 3

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.

Internal Control

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

Reported Fringe Benefits, Depreciation and Amortization and Professional Fees Expense are over reported by $4,219 of mathematical inaccuracies and accounting errors. Our limited scope audit disclosed the following:

- Our audit disclosed that the Agency inappropriately reported $500 of Worker's Compensation Insurance during the November 1, 2006 to October 31, 2007 period that pertained to the period of audit. Accordingly we recognized $500 of additional Worker's Compensation Insurance expense (See p. 28, Notes to Schedule, note 9).

- Our audit of the November 1, 2006 to October 31, 2007 period disclosed that audit adjustments were necessary to disallow certain inadequately documented journal entries and to recognize the appropriate prepaid amounts. However, since the Agency reversed the journal entries during the November 1, 2007 to

October 31, 2008 period, similar audit adjustments were necessary to disallow $3,873 of the associated reversals and to recognize as additional expense $3,455 of prepaid insurance expense resulting in a $7,328 increase to reported Insurance Expense (See p. 28, Notes to Schedule, note 9).

- During the November 1, 2008 to October 31, 2009 audit period, the Agency disposed of most of its fixed assets. We found that many of the fixed assets had not been fully depreciated and, as a result, the Agency reported as depreciation expense a $7,946 loss on the disposition of these assets. However since the Agency did not provide us with any documentation supporting this loss, the audit determined the book value (fixed asset cost less applicable accumulated depreciation) for each fixed asset that was determined to be allowable and compared the combined total of these assets to the Agency's reported loss on their disposal. Our analysis disclosed that the Agency over reported the loss by $1,735. Accordingly $1,735 of reported Depreciation Expense is disallowed (See p. 28, Notes to Schedule, note 9).

- The Agency reported Depreciation and Amortization Expense associated with fixed assets that were acquired utilizing alternate sources of funding such as private and government grants. However, since the Agency did not recognize the associated funding as program revenue, $8,000 of reported Depreciation and Amortization Expense is disallowed (See p. 29, Notes to Schedule, note 14).

- In accordance with the RCM, a Reserve Fund established by the Agency utilizing the prior period's excess revenue over expenditures was expended for the purpose of acquiring furniture, carpeting and refrigerators. However, since the Agency did not recognize the related reserve funds as offsetting program revenue $9,329 of reported Depreciation and Amortization Expense is disallowed (See p. 29, Notes to Schedule, note 13).

- 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 9 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, $10,824 of reported Depreciation Expense is disallowed (See p. 28, Notes to Schedule, note 11).

- The Agency excluded from its fixed asset/depreciation schedule an alarm system and consequently did not record Depreciation Expense associated with the cost of this asset. Our audit disclosed that during a prior period expenditure review, DSS disallowed the cost of an alarm system that was fully expensed in the year of acquisition and required the Agency to capitalize the asset and depreciate the cost over an appropriate useful life. However since the Agency did not include the asset on the fixed asset/depreciation schedule, reported Depreciation Expense was under reported by $8,333. Accordingly, we recognized $8,333 of additional Depreciation and Amortization Expense (See p. 28, Notes to Schedule, note 11).

- The Agency erroneously underreported Professional Fees by $9,032. Since our review of the general ledger detail did not disclose any professional fees that were inappropriately included in the account balance, an audit adjustment is necessary to recognize $9,032 of unreported professional fees (See p. 31, Notes to Schedule, note 20).

- The Agency incorrectly reported as an expense of its other program, depreciation expense which related to a computer that was preapproved by DSS for the County Program and was located at the administrative office. Accordingly, an audit adjustment was necessary to recognize $476 as an expense of the County Program (See p. 29, Notes to Schedule, note 15).

Recommendation 4

The Agency must strengthen its review process to ensure that transactions are accurately recorded in the accounting records.

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

- The Agency incorrectly classified as Fringe Benefit Expense $13,024 of fees related to the administration of the Agency's pension plan which should have been classified as Professional Fees. We reclassified these expenses accordingly resulting in a decrease to reported Fringe Benefit Expense and a corresponding increase to reported Professional Fees Expense (See p. 27, Notes to Schedule, note 6).

- The Agency erroneously reported as Other Expense, $5,105 of costs attributable to the Metropolitan Commuter Transportation Tax (MCTMT) which is assessed by New York State utilizing the employers' payroll expense for covered employees and therefore should be reported in the Fringe Benefit account classification. We reclassified these expenses accordingly resulting in a $5,105 decrease to reported Other Expense and a corresponding increase to reported Fringe Benefit Expense (See p. 28, Notes to Schedule, note 8).

- The Agency incorrectly reported as Other Expenses $23,237 of expenses that related to the preparation and maintenance of the Agency's payroll records which, according to the RCM, should have been reported as Office Expense. We reclassified these expenses accordingly resulting in a $23,237 decrease to reported Other Expense and a corresponding increase to reported Office Expense (see p. 30, Notes to Schedule, Note 18).

- The Agency incorrectly reported as Training Expense $5,000 of expenses that were recorded in the general ledger as Professional Fees. Since our review of the general ledger detail did not disclose any training expenses that were incorrectly classified in the Professional Fees account, we reclassified these costs accordingly resulting in a $5,000 decrease in reported Training Expense and a corresponding increase to Reported Professional Fees Expense (See p. 30, Notes to Schedule, note 19).

- The Agency erroneously classified $375 of costs associated with the Agency's vehicles as Dues and Subscription expenses rather than Repairs and Maintenance Expense. We reclassified these transactions accordingly resulting in a decrease of $375 to reported Dues and Subscription expenses and a corresponding increase to reported Repairs and Maintenance expense (See p. 31, Notes to Schedule, note 21).

Recommendation 5

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 should review the month's transactions for proper accounting classification.

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 Reported and Adjusted Revenue, Adjusted Expenses and Net Audit Adjustment
For the Period November 1, 2007 through December 31, 2012

Notes	Description	Combined Total	November 1, 2007 through October 31, 2008	November 1, 2008 through October 31, 2009	November 1, 2009 through December 31, 2009	January 1, 2010 through December 31, 2010	January 1, 2011 through December 31, 2011	January 1, 2012 through December 31, 2012
(1)	Total Reported Program Revenues	$ 6,500,798	$ 1,184,628	$ 1,373,243	$ 231,618	$ 1,186,640	$ 1,209,915	$ 1,314,754
(2)	Adjustment to Revenue	41,944	362	12	-	8,935	2,186	30,449
(3)	Capital Reserve Fund Contribution	(50,000)	(25,000)	(25,000)	-	-	-	-
(4)	Contractually Mandated Release of Capital Reserve Funds	86,809	35,000	25,000	1,809	-	2,997	22,003
	Total Adjusted Program Revenues	6,579,551	1,194,990	1,373,255	233,427	1,195,575	1,215,098	1,367,206
	Total Adjusted Expenses (Schedules 2 through 7)	5,436,861	852,469	1,063,369	153,136	1,200,553	1,063,214	1,104,120
	Total Amount Due Suffolk County	$ 1,142,690	$ 342,521	$ 309,886	$ 80,291	$ (4,978)	$ 151,884	$ 263,086

See Notes to Schedules (p. 26)

Schedule 2

Never Alone Never Afraid, Inc.
Statement of Reported and Adjusted Expenses
For the Period November 1, 2007 through October 31, 2008

Notes	Description	Amount Reported	Amount Over (Under) Reported	Adjusted Amount
(5)	Salaries/Wages	$ 620,672	$ 71,911	$ 548,761
(5)	Fringe Benefits	135,063	10,717	73,556
(6)			1,290	
(7)			50,000	
(9)			(500)	
(11)	Depreciation & Amortization	31,693	15,298	16,100
(12)			295	
	Food	767	-	767
	Interest	2,084	-	2,084
(9)	Insurance	13,495	(7,328)	17,055
(17)			3,768	
(18)	Office Expense	8,269	(3,363)	11,632
(6)	Professional Fees	20,628	(1,290)	21,918
	Rent- Building	151,844	-	151,844
	Repairs & Maintenance	14,955	-	14,955
	Telephone	12,988	-	12,988
	Training	560	-	560
	Travel	4,284	-	4,284
	Utilities	46,201	-	46,201
(18)	Other Expense	8,222	3,363	4,859
(22)	Administrative Cap Adjustment	(3,815)	71,280	(75,095)
	Total Expenses	$ 1,067,910	$ 215,441	$ 852,469

See Notes to Schedules (p. 26)

Schedule 3

Never Alone Never Afraid, Inc.
Statement of Reported and Adjusted Expenses
For the Period November 1, 2008 through October 31, 2009

Notes	Description	Amount Reported	Amount Over (Under) Reported	Adjusted Amount
(5)	Salaries/Wages	$ 701,343	$ 49,986	$ 651,357
(5)	Fringe Benefits	168,466	5,326	126,994
(6)			3,050	
(7)			33,096	
(9)	Depreciation & Amortization	11,119	1,735	6,211
(12)			3,173	
	Food	713	-	713
(16)	Interest	1,618	1,618	-
	Insurance	24,436	-	24,436
(18)	Office Expense	5,063	(3,449)	8,512
(6)	Professional Fees	33,000	(3,050)	41,050
(19)			(5,000)	
	Rent- Building	147,001		147,001
	Repairs & Maintenance	22,912	-	22,912
	Telephone	7,419	-	7,419
(19)	Training	5,000	5,000	-
	Travel	1,375	-	1,375
	Utilities	46,613	-	46,613
(18)	Other Expense	30,251	3,449	26,802
(22)	Administrative Cap Adjustment	-	48,026	(48,026)
	Total Expenses	$ 1,206,329	$ 142,960	$ 1,063,369

See Notes to Schedules (p. 26)

Schedule 4

Never Alone Never Afraid, Inc.
Statement of Reported and Adjusted Expenses
For the Period November 1, 2009 through December 31, 2009

Notes	Description	Amount Reported	Amount Over (Under) Reported	Adjusted Amount
(5)	Salaries/Wages	$ 106,789	$ 4,827	$ 101,962
(5)	Fringe Benefits	42,534	503	13,752
(7)			28,279	
(11)	Depreciation & Amortization	1,682	110	-
(12)			655	
(13)			917	
	Insurance	3,689	-	3,689
(18)	Office Expense	156	(3,905)	4,061
	Professional Fees	10,400	-	10,400
	Rent- Building	24,945	-	24,945
	Repairs & Maintenance	478	-	478
	Telephone	633	-	633
	Utilities	6,001	-	6,001
(18)	Other Expense	6,297	3,905	2,392
(22)	Administrative Cap Adjustment	-	15,177	(15,177)
	Total Expenses	$ 203,604	$ 50,468	$ 153,136

See Notes to Schedules (p. 26)

Schedule 5

Never Alone Never Afraid Inc.
Statement of Reported and Adjusted Expenses
For the Period January 1, 2010 through December 31, 2010

Notes	Description	Amount Reported	Amount Over (Under) Reported	Adjusted Amount
(5)	Salaries/Wages	$ 758,966	$ 84,824	$ 674,142
(5)	Fringe Benefits	181,428	9,879	260,720
(6)			4,049	
(7)			(90,000)	
(8)			(3,220)	
(11)	Depreciation & Amortization	13,898	110	357
(12)			3,933	
(13)			5,498	
(14)			4,000	
	Dues & Subscriptions	75	-	75
	Food	247	-	247
	Insurance	17,216		17,216
	License & Permits	149	-	149
(10)	Office Expense	17,022	269	16,753
(6)	Professional Fees	39,788	(4,049)	43,837
	Rent- Building	153,669		153,669
	Rent - Vehicles & Equip.,etc.	1,342	-	1,342
	Repairs & Maintenance	26,775	-	26,775
	Security	1,450	-	1,450
	Telephone	8,165	-	8,165
	Travel	695	-	695
	Utilities	50,428	-	50,428
(8)	Other Expense	17,848	3,220	14,628
(22)	Administrative Cap Adjustment	(46,428)	23,667	(70,095)
	Total Expenses	$ 1,242,733	$ 42,180	$ 1,200,553

See Notes to Schedules (p. 26)

Schedule 6

Never Alone Never Afraid Inc.
Statement of Reported and Adjusted Expenses
For the Period January 1, 2011 through December 31, 2011

Notes	Description	Amount Reported	Amount Over (Under) Reported	Adjusted Amount
(5)	Salaries/Wages	$ 768,572	$ 151,696	$ 616,876
(5)	Fringe Benefits	192,597	18,295	184,487
(6)			1,700	
(7)			(10,000)	
(8)			(1,885)	
	Consultant	435	-	435
(12)	Depreciation & Amortization	12,032	4,642	476
(13)			2,914	
(14)			4,000	
(16)	Dues & Subscriptions	1,380	955	50
(22)			375	
	Food	173	-	173
	Insurance	18,866	-	18,866
(18)	Office Expense	2,100	(6,265)	8,365
(6)	Professional Fees	44,594	(1,700)	46,294
	Rent- Building	159,740		159,740
(17)	Repairs & Maintenance	21,897	1,049	21,223
(21)			(375)	
	Telephone	6,787	-	6,787
	Travel	238	-	238
	Utilities	48,765	-	48,765
(8)	Other Expense	44,055	1,885	32,450
(10)			85	
(16)			3,370	
(18)			6,265	
(22)	Administrative Cap Adjustment	-	82,011	(82,011)
	Total Expenses	$ 1,322,231	$ 259,017	$ 1,063,214

See Notes to Schedules (p. 26)

Schedule 7

Never Alone Never Afraid Inc.
Statement of Reported and Adjusted Expenses
For the Period January 1, 2012 through December 31, 2012

Notes	Description	Amount Reported	Amount Over (Under) Reported	Adjusted Amount
(5)	Salaries/Wages	$ 792,427	$ 146,396	$ 646,031
(5)	Fringe Benefits	212,238	18,127	194,111
(6)			2,935	
(7)			(2,969)	
(10)			34	
(12)	Depreciation & Amortization	3,205	3,205	476
(15)			(476)	
(16)	Dues & Subscriptions	980	980	-
	Food	584	-	584
	Interest	387		387
	Insurance	21,379	-	21,379
	Licenses & Permits	150		150
(18)	Office Expense	6,682	(6,255)	12,937
(6)	Professional Fees	39,321	(2,935)	51,288
(20)			(9,032)	
	Rent- Building	164,733		164,733
	Repairs & Maintenance	20,279	-	20,279
	Telephone	7,691	-	7,691
	Utilities	48,865	-	48,865
(10)	Other Expense	24,661	41	18,365
(18)			6,255	
(22)	Administrative Cap Adjustment	-	83,156	(83,156)
	Total Expenses	$ 1,343,582	$ 239,462	$ 1,104,120

See Notes to Schedules (p. 26)

Notes to Schedules

Never Alone Never Afraid, Inc.

(1) Total Reported Program Revenues include Suffolk County per diem funding reported by the Agency for services rendered pursuant to its contract with the County as well as reported client fees which the Agency is responsible to collect directly from clients who have been determined by DSS to be financially capable of contributing to the cost of services rendered (Schedule 1). 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.

(2) The Adjustment to Revenue consists of other miscellaneous revenue that pertained to the County Program but was incorrectly reported under another program. Accordingly, an audit adjustment is necessary to correctly classify $41,944 (Schedule 1) as revenue of the County Program as follows:

Insurance refunds	$ 362
Miscellaneous refund	12
Refunds and an incorrectly recorded journal entry to reduce previously accrued expenses	8,935
Insurance and other miscellaneous refunds	2,186
Incorrectly recorded journal entry to reduce previously accrued expenses and other miscellaneous adjustments	30,449
Total	$ 41,944

(3) Pursuant to the RCM, the Agency may establish a Reserve Fund to accumulate excess program revenues for the purpose of building or capital acquisition, capital improvements, renovation, alteration, major repairs or for any purpose that is approved in advance by DSS. This Fund may only offset current year excess revenue over expenditures. The Fund cannot increase an existing loss or generate a loss after reducing an overpayment. Each contribution to the Fund may not exceed $25,000 per year and has a four-year expenditure period, during which time the fund must be used or returned to the County. The four year period begins on the first day of the subsequent period after the year of the fund establishment. During each of the periods November 1, 2007 through October 31, 2008 and November 1, 2008 through October 31, 2009 the Agency reported as an offset to excess revenue a Reserve Fund contribution in the amount of $25,000 (Schedule 1).

(4) Our limited scope audit procedures performed for the November 1, 2007 through December 31, 2012 period, disclosed that reserve funds that were established by the Agency in prior periods had not been utilized by the Agency within the four year expenditure period. Therefore, as required by the RCM, an adjustment was necessary to recognize $86,809 (Schedule 1) of unused reserve funds as surplus which must be returned to the County.

Notes to Schedules

Never Alone Never Afraid, Inc.

(5) The Contract directs that during the term of this agreement, the contractor's staff positions and salaries shall remain identical to those positions and salaries contained within the Contractor's current budget approved by the DSS. However, our audit revealed numerous instances whereby the reported salaries exceeded the approved budgeted amount for the position. As a result, Salaries/Wages in the amount of $509,640 and related Fringe Benefit Expense in the amount of $62,847 are disallowed as follows:

	Fringe Benefit	Salaries/ Wages
Schedule 2	$ 10,717	$ 71,911
Schedule 3	5,326	49,986
Schedule 4	503	4,827
Schedule 5	9,879	84,824
Schedule 6	18,295	151,696
Schedule 7	18,127	146,396
Total	$ 62,847	$ 509,640

(6) The Agency incorrectly reported as Fringe Benefit Expense $13,024 of fees which related to the administration of the Agency's pension plan and therefore should have been reported as Professional Fees. As a result, an audit adjustment was necessary to correctly classify these fees as follows.

Schedule 2	$ 1,290
Schedule 3	3,050
Schedule 5	4,049
Schedule 6	1,700
Schedule 7	2,935
Total	$ 13,024

(7) Reported expenses include accruals of estimated contributions to the employees' pension plan that exceed the actual pension contributions paid by the Agency on behalf of the employee's by $8,406. As a result, net excess accrued pension contributions are disallowed as:

Schedule 2	$ 50,000
Schedule 3	33,096
Schedule 4	28,279
Schedule 5	(90,000)
Schedule 6	(10,000)
Schedule 7	(2,969)
Total	$ 8,406

Notes to Schedules

Never Alone Never Afraid, Inc.

(8) The Agency incorrectly reported as Other Expense, Metropolitan Commuter Transportation Tax in the amount of $ (5,105). We determined that since this tax is assessed by New York State based on the Agency's payroll expense for covered employees it should have been reported as Fringe Benefit Expense. As a result, an audit adjustment was necessary to correctly classify this tax as follows.

Schedule 5	$ (3,220)
Schedule 6	(1,885)
Total	$ (5,105)

(9) Reported expenses were understated by $ (6,093) due to mathematical inaccuracies and accounting errors that were the direct result of material weaknesses in the Agency's system of internal controls relative to the processing of program expenses. Accordingly, audit adjustments were necessary to correct the following account balances:

Workers Compensation Insurance (Schedule 2)	$ (500)
Insurance Expense (Schedule 2)	(7,328)
Depreciation and Amortization Expense (Schedule 3)	1,735
Total	$ (6,093)

(10) Reported expenses inappropriately included $429 of costs that were unreasonable, unnecessary or did not benefit the County Program. Accordingly, the following expenses were disallowed:

Employee advances reported as Fringe Benefits (Schedule 7)	$ 34
Non-program related bank fees as follows:	
Office Expense (Schedules 5)	269
Other Expense (Schedules 7)	41
Other Expense (Schedules 6)	85
Total	$ 429

(11) Our audit of the November 1, 2006 through October 31, 2007 period resulted in the disallowance of depreciation expense for assets that were also depreciated during our limited scope audit of the subsequent periods. We also found that DSS had added assets to the depreciation schedule and the Agency did not recognize the additional depreciation expense. Accordingly adjustments to reported depreciation expense are required as follows:

Unallowable costs – personal in nature	$ 359
Unreasonable- Asset not present upon physical inspection	143
Costs fully expensed by the Agency in a prior period	10,824
Costs for vehicles acquired without DSS approval	9,880
Lack of supporting documentation	2,425

Notes to Schedules

Never Alone Never Afraid, Inc.

‘(11)	Recognize Dep. Expense for Asset added by DSS	(8,333)
	Subtotal Schedule 2	15,298
	Lack of sufficient supporting documentation:	
	Schedule 4	110
	Schedule 5	110
	Grand Total	$ 15,518

(12) The Agency reported depreciation expense for numerous fixed asset purchases that exceeded $750 and therefore required written approval from the County prior to acquisition. However, since no such approval was obtained by the Agency for these assets, the related depreciation expenses are disallowed as follows:

Schedule 2	$ 295
Schedule 3	3,173
Schedule 4	655
Schedule 5	3,933
Schedule 6	4,642
Schedule 7	3,205
Total	$ 15,903

(13) In accordance with the RCM, a Reserve Fund established by the Agency utilizing the prior period’s excess revenue over expenditures was expended for the purpose of acquiring certain fixed assets. However, since the Agency did not recognize the reserve funds as an offset to the depreciation expense reported for these assets, the related depreciation expenses are disallowed as follows:

Schedule 4	$ 917
Schedule 5	5,498
Schedule 6	2,914
Total	$ 9,329

(14) The Agency utilized an alternate source of funding (ESG Grant) to acquire certain fixed assets. However, since the Agency did not recognize the grant funds as an offset to the depreciation expense reported for these assets, the related depreciation expenses are disallowed as follows:

Schedule 5	$ 4,000
Schedule 6	4,000
Total	$ 8,000

(15) The Agency incorrectly reported as an expense of its Other Program, depreciation expense which related to a computer that was preapproved by DSS for the County Program and was located at the administrative office. Accordingly, an audit

adjustment was necessary to correctly classify $476 (Schedule 7) as an expense of the County Program.

(16) Reported expenses inappropriately included $6,923 of costs that are specifically prohibited by the RCM. Accordingly, the following expenses were disallowed:

Interest payments associated with a loan payable to the Agency's Assistant Director (Schedule 3)	$ 1,618
Merchandise purchased without proper approval from DSS (Schedule 6)	3,370
Cost of Membership in a civic association without proper approval from DSS:	
(Schedule 6)	955
(Schedule 7)	980
Total	$ 6,923

(17) The RCM prohibits the acquisition or lease of a motor vehicle that has not been preapproved by DSS from being reported as an allowable cost. Accordingly, all other expenses associated with an unapproved vehicle should be excluded from allowable costs as well. As a result, the Insurance and Repair and Maintenance Expenses related to two vehicles for which no such approval was obtained from DSS are disallowed as follows:

Automobile Insurance (Schedule 2)	$ 3,768
Repairs and Maintenance (Schedule 6)	1,049
Total	$ 4,817

(18) The Agency incorrectly reported as Other Expenditures $23,237 of expenditures that related to the preparation and maintenance of the Agency's payroll records which, according to the RCM, should have been reported as Office Expense. As a result, an audit adjustment was necessary to correctly classify these expenses as follows.

Schedule 2	$ 3,363
Schedule 3	3,449
Schedule 4	3,905
Schedule 6	6,265
Schedule 7	6,255
Total	$ 23,237

(19) The Agency incorrectly reported as Training Expense $5,000 (Schedule 3) of expenses that were recorded in the general ledger as Professional Fees. Since our review of the general ledger detail did not disclose any training expenses that were incorrectly classified in the professional fees account, an audit adjustment is necessary to reclassify these expenses accordingly.

Notes to Schedules

Never Alone Never Afraid, Inc.

(20) The Agency erroneously underreported Professional Fees by $9,032. Since our review of the general ledger detail did not disclose any professional fees that were inappropriately included in the account balance, an audit adjustment is necessary to recognize $9,032 (Schedule 7) of unreported professional fees.

(21) The Agency incorrectly reported as Dues and Subscriptions Expense $375 (Schedule 6) of costs which pertained to the necessary maintenance and repairs of agency vehicles and therefore should have been reported as Repairs and Maintenance. As a result, an audit adjustment was necessary to correctly classify these costs.

(22) 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 exceeded 20% of audited direct program expenses by $323,317. Accordingly, audit adjustments were necessary to disallow excess administrative costs as follows:

Schedule 2	$ 71,280
Schedule 3	48,026
Schedule 4	15,177
Schedule 5	23,667
Schedule 6	82,011
Schedule 7	83,156
Total	$ 323,317

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 as well as the representation letter which was attached to 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 the 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.

APPENDIX A

Exit Conference Report

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 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 Officer	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. 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 vehicle

APPENDIX A

Exit Conference Report

logs documenting that the vehicle was used solely for the County program. As a result, no revision to the audit report is warranted.

2. 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.

3. 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 a portion of the income reported in this account resulted from refunds from the Homeless Shelter's vendors as well as an incorrectly recorded journal entry to reduce previously accrued and reported expenses and other miscellaneous adjustments which we believe pertained to the County Program's expenses and therefore the audit adjustment is warranted.

4. Refrigerator

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. We provided the Executive Director with the audit documentation supporting the disallowance in question so that she could submit documentation substantiating that the refrigerator was purchased for agency use. However, since no additional substantiating documentation was provided by the Agency, we believe that the related audit disallowance is warranted.

APPENDIX A

Exit Conference Report

5. Salaries/Wages

At the exit conference, the Agency's Executive Director expressed disagreement with the disallowance of reported Salaries/Wages that exceeded the Agency's budget, as approved by DSS, for the associated job titles. The Agency contends that although a budget was duly submitted to DSS each year as well as each time a program was added a timely response was rarely received and at times not received at all. The Agency believes that if the only response of DSS is to permit utilization of the facility covered by the budget then it is implicitly implied that those submitted charges are approved. An inquiry made by our office to DSS concerning the Agency's required budget submissions revealed that the only budget that was approved by DSS for the period of audit pertained to the period November 1, 2007 through October 31, 2008. Although the Agency did submit a budget for the period November 1, 2008 through October 31, 2009, DSS correspondence revealed that this budget was rejected due to the excessive increases in salaries/wages as well as other budget lines and the Agency was instructed to reduce the budgeted amounts accordingly. However, the Agency did not comply with this request. According to DSS, no further budget submissions were made by the Agency for the periods audited. It should be noted that although the Executive Director agreed to provide us with correspondence substantiating that a budget was duly submitted for each audit period, no such documentation was provided.

We believe that the Agency should have been aware that no budgets were approved by DSS for the period November 1, 2008 through December 31, 2012 since there were no corresponding budget related changes in the Agency's contracted per diem rate which is determined based on an approved budget. As a result, the Agency should have operated within the constraints of the November 1, 2007 through October 31, 2008 approved budget. Therefore, due to the lack of any written documentation to substantiate the contrary, we believe that the related audit disallowance is warranted.

6. Educational Advocate

At the exit conference, the Agency's Executive Director expressed disagreement with the disallowance of salaries/wages associated with an Educational Advocate. These wages were disallowed due to a letter dated June 5, 2008 from DSS to the Agency eliminating this unfilled position from the budget. The Agency agreed to provide us with subsequent correspondence from DSS substantiating that this position was retroactively approved and therefore should be allowed. However, since no such correspondence was provided, we believe that the related audit disallowance is warranted.

APPENDIX A

Exit Conference Report

7. Uniforms

At the exit conference, the Agency's Executive Director expressed disagreement with the disallowance of $3,370 of costs which pertained to an order for 300 Port Authority Silk Sport Shirts which were purportedly used as agency uniforms. The Agency contends that since no individual shirt exceeded $750 this order did not require the prior written approval from DSS dictated by the Reimbursable Cost Manual (RCM). We believe that this order, when considered in aggregate, meets the criteria established by the RCM requiring DSS' prior written approval since it consists of one acquisition of 300 like items the cost of which substantially exceeds the $750 threshold. Furthermore, since the Agency only employed approximately 40 to 50 employees at the time of the acquisition we believe that DSS should have had the opportunity to review this acquisition reasonableness and necessity prior to the order being placed. As a result, we believe that the related audit disallowance is warranted.

8. Pension Plan Contributions

At the exit conference, the Agency's Executive Director expressed strong disagreement with the disallowance of reported Pension Expense that exceeded the actual contributions made by the Agency to the pension plan. She emphasized that all reported contributions were duly made to the plan and offered to provide us with a schedule of payments which was prepared by the Agency's external auditor to substantiate the Agency's contention. We reviewed the Agency's schedule as well as the related cancelled checks which disclosed that $8,406 of pension expense reported during the period of audit was not contributed by the Agency to the pension plan. The related audit disallowance was adjusted accordingly.