



**SUFFOLK COUNTY  
OFFICE OF THE COMPTROLLER  
AUDIT DIVISION**

**John M. Kennedy, Jr.  
Comptroller**

A Limited Scope Audit Report of  
**Long Island Women's Empowerment Network, Inc.**  
**Emergency Housing Services**  
For the Period  
February 1, 2013 through December 31, 2014

**Report No.: 2016-02  
Date Issued: July 1, 2016**

**SUFFOLK COUNTY**  
**OFFICE OF THE COMPTROLLER**

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## LETTER OF TRANSMITTAL

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April 15, 2016

Ms. Julie Levine, CEO/President  
Long Island Women's Empowerment Network, Inc.  
29 First Avenue  
Central Islip, NY 11722

Dear Ms. Levine:

In accordance with the authority vested in the County Comptroller by the Suffolk County Charter (Article V), an audit was initiated of the Emergency Housing Services Program (County Program) provided by Long Island Women's Empowerment Network, Inc. (Agency) having its principal administrative office at 29 First Avenue, Central Islip, New York. The Agency's contract with the County (County Contract) to provide Emergency Housing Services at one location in Suffolk County was administered by the Suffolk County Department of Social Services (DSS).

The audit was initiated as a result of numerous anonymous complaints that were received by our office as well as DSS regarding alleged mismanagement of the Agency, shoddy accounting and record keeping and questionable business arrangements.

Our audit focused upon the expenses and the revenues reported on the Agency's Homeless Shelter Provider Financial Statements for the February 1, 2013 through December 31, 2014 period. The objectives of our audit were as follows:

- To determine if the expenses reported by the Agency to DSS represented necessary and legitimate obligations of the Agency that were incurred and paid solely on behalf of the County Program, pursuant to the County Contract and all applicable laws and regulations.
- To determine if the revenues reported by the Agency represented all payments made by the County for legitimate services provided by the Agency pursuant to the County Contract; and that they included all other income that was recognized and received by the Agency on behalf of the County Program.
- To determine if the County Program's allowable revenues exceeded the County Program's allowable expenses since such excess revenue, as directed by the County Contract, must be returned to the County.

Our audit of the period February 1, 2013 through December 31, 2014, was subsequently terminated as a result of the County's decision to cancel the Agency's

contract with the County effective March 23, 2016. The contract was cancelled primarily due to circumstances such as the following:

- The Agency's blatant disregard for the budget constraints established by the County Contract.
- The Agency's stern unwillingness to return to the County excess funding that, in accordance with Article II (9) (a) of the Contract, must be returned to the County.
- The Agency's misrepresentation to our office that it was not involved in any litigation concerning the County Program when, in fact, the Agency was a party to ongoing litigation with its largest creditor that, if successful, would substantially impact the County Program.
- The Agency's inadequate safeguarding of County funding.
- The Agency's reporting of numerous questionable costs as well as material non-compliance with the County Contract and applicable laws and regulations.

Our limited scope audit included inquiries of both the Agency's and DSS' personnel; an examination of the electronic files and original documentary evidence supporting judgmentally selected transactions recorded in the Agency's accounting and operating records as well as other procedures that we considered necessary under the circumstances. The limited scope audit also included our assessment of certain estimates, judgments, and decisions made by management with respect to the recording of these transactions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying Statement of Revenue, Expenses and Net Audit Adjustment for the period February 1, 2013 through December 31, 2014, was prepared for the purpose of summarizing the audit adjustments disclosed by our limited scope audit with respect to those transactions tested and therefore, is not a complete presentation of the Agency's expenses and revenues in accordance with generally accepted accounting principles and the Suffolk County Department of Social Services' Reimbursable Cost Manual for Not-for-Profit Shelters (RCM). The RCM specifies the expenses that the County of Suffolk will and will not accept for reimbursement.

As a result of our limited scope audit for the period February 1, 2013 through December 31, 2014, it was determined that the Agency's adjusted program revenues exceeded the adjusted program expenses by \$3,628,411 (Schedule, p. 24).

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## EXECUTIVE SUMMARY

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**County Funding** (p. 9) – Our limited scope audit of the period February 1, 2013 through December 31, 2014, disclosed that the Agency was overpaid \$3,628,411 (Schedule, p. 24) by Suffolk County. The overpayment resulted primarily from the following:

- The Agency reported \$1,099,536 in excess funding from the audit period which must be returned to the County as dictated by the County Contract (p. 9).
- Overreported revenue in the amount of \$70,672 was disallowed because it pertained to per diem funding that was reported by the Agency, but was not paid by the County for services provided during the period of audit (p. 9).
- Expenses in the amount of \$2,599,547 were disallowed due to inappropriate charges to the County Program and costs that were prohibited by the RCM as detailed below (p. 10).

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

- Salaries/Wages, Fringe Benefits and other expenses were overreported by \$979,166 due to costs that were prohibited by the RCM as well as other inappropriate charges (p. 10).
- Repairs and Maintenance, Security, Professional Fees and Rent - Vehicles, Equipment, etc. expenses were over-reported by \$981,704, due to inappropriate charges that we determined were contrary to, or in conflict with, the goals and purposes of the County Contract (p. 11).
- Repairs and Maintenance expense was overreported by \$231,276 due to acquisitions which were consummated without the prior approval of DSS as dictated by the RCM (p. 13).
- Telephone, Utilities, Repairs and Maintenance and Rent – Building Expenses were overreported by \$368,572 due to costs that were not supported by sufficient documentation (p. 13).
- The Agency did not duly disclose to our office the existence and nature of any current litigation in which it was involved (p. 15).
- The audit disclosed certain questionable business transactions that did not result in monetary adjustments but could not be conclusively resolved due to the County's termination of the Agency's contract (p. 15).

**Internal Controls** – Our review of internal controls disclosed the following significant deficiencies (p. 18):

- Repairs and Maintenance and Rent - Building expenses were overreported by \$38,829 due to mathematical inaccuracies and accounting errors that were the direct result of significant deficiencies in the Agency's system of internal controls relative to the processing of program expenses (p. 18).
- The severe lack of segregation of duties related to the Agency's collection and subsequent deposit of program revenue increased the risk that defalcation could occur without detection (p. 19).
- The Agency's review and approval of the business activities performed by its independent contractors was severely inadequate (p. 19).

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## BACKGROUND

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The Agency is a community based not-for-profit emergency housing agency founded in New York State in 2009 to assist the rapidly growing population of young parents without a place to call home. The Agency's administrative office is located at 29 First Avenue, Central Islip, New York, which is also the personal residence of the Agency's CEO/President.

The Agency entered into an agreement (County Contract) with DSS to provide emergency housing services for individuals and families without permanent housing in a facility 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 February 1, 2013 through June 30, 2015, with two one-year renewal options. Our limited scope audit was conducted for the 23-month fiscal period of February 1, 2013 through December 31, 2014.

During the period of audit, the Agency operated one congregate family shelter in a former hotel facility located at 801 Crooked Hill Road, Brentwood, New York. The hotel gave the Agency the capacity to house as many as 440 clients on any given night and was one of the first of its kind in Suffolk County. As such, the Agency was slated for audit by our office in the near future. In addition, the size of the facility as well as its design permitted the Agency to also provide numerous additional services on site such as educational training and tutoring, daycare services, recreation, etc.

The County Contract dictated that payment for services rendered to those homeless clients who were 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 its operating expenses.

The Agency's per diem rate for the audit period was determined by DSS pursuant to a review and approval of its proposed budget. The RCM specifies those costs that were allowable and states that costs must be reasonable, necessary and directly related to an adequate program for homeless clients.

The County Contract directed that at the end of each contract year, if an agency's allowable costs are less than the revenue received, such overpayments are subject to recovery by the Suffolk County Department of Audit and Control. During the February 1, 2013 through December 31, 2014 period of audit, the Agency reported an overpayment in the amount of \$1,099,536 (Schedule, p. 24). At the Agency's objection, DSS began withholding current payments on January 11, 2016, on behalf of our office, in an attempt to recover the overpayment. However, such collection of overpayment did not preclude the Comptroller's office from conducting a full audit at a future date.

Although the Agency was slated for audit in the near future, due to numerous anonymous complaints that were received by both our office and DSS regarding alleged mismanagement of the Agency, as well as shoddy accounting and record keeping and questionable business arrangements, on July 21, 2015, our office initiated an audit of the Agency.

On March 23, 2016, due to irregularities such as those cited on page 1 of this limited scope audit report, which were disclosed by our preliminary procedures, the County terminated its contract with the Agency. As a result, our audit of the period February 1, 2013 through December 31, 2014, which was in progress at the time, was prematurely terminated.

In addition, since our preliminary procedures identified numerous expense adjustments that resulted from material instances of noncompliance with regulations and contractual requirements as well as other abusive transactions, it was therefore determined that a limited scope audit report be issued for the period February 1, 2013 through January 31, 2014. However, since the Agency ceased providing emergency housing services to the County on March 23, 2016, our report does not include corrective recommendations.

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## SCOPE AND METHODOLOGY

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To accomplish our objectives, we performed the following procedures:

- Examined the County Contract, Departmental Budget Review Letter, 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. Determined the procedures utilized by DSS relative to the receipt and processing of service billings submitted by the Agency to DSS.
- 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.
- Reconciled the revenue reported on the Homeless Shelter Provider Financial Statements (Financial Statements) to DSS records of revenue payments made to the Agency for services rendered during the audit period pursuant to the County Contract.
- Reconciled the revenues and expenses reported on the Financial Statements to the Agency's general ledger.
- Verified that amounts claimed did not exceed amounts approved by the Department per the Budget Review Letter.
- Disallowed any payments made to individuals not approved to work at Shelter locations as required by §438 of the Laws of Suffolk County, New York, as well as payments made to employees not performing services on site.

With the exception of the external peer review requirement, we conducted this limited scope audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (GAGAS). As directed by those standards we planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions contained within this report. However, we did not fully complete the initial audit objectives contained within the Letter of Transmittal (Page 1) due to the County's decision to cancel the Agency's contract effective March 23, 2016.

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## AUDIT FINDINGS

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### County Funding

Our limited scope audit of the period February 1, 2013 through December 31, 2014, disclosed that the Agency was overpaid \$3,628,411 (Schedule, p. 24) by Suffolk County. The overpayment resulted primarily from the following:

- **The Agency reported \$1,099,536 in excess funding from the audit period which must be returned to the County as dictated by the County Contract.** Due to inexplicable changes made by DSS within the July 1, 2012 through June 30, 2015 County Contract, the Homeless Shelter Provider Financial Statements as well as other financial and statistical data (collectively referred to as “Financial Reports”) were no longer contractually required to be submitted to DSS for review. These previously required submissions were removed from the County Contract since DSS no longer intended to perform fiscal reviews of the providers’ Financial Reports or use them as a basis for per diem rate-setting as was standard practice under previous contracts. Under the new contract the per diem rate would be determined based primarily on the providers proposed budget. Upon notification of this impending change we requested that DSS include verbiage in the County Contract directing that previously submitted Financial Reports be forwarded to our office for a cursory review. The revised verbiage was requested to ensure that yearly excess funding reported by the providers on the Financial Reports, that would ordinarily be disclosed by DSS’ fiscal review, will not go undetected until an audit is conducted by our office. Consequently an initial cursory review of the Agency’s Homeless Shelter Provider Financial Statements was performed at the inception of the audit. The review determined that the Agency’s reported program revenue in the amount of \$13,424,739 exceeded reported expenses of \$12,325,203 by \$1,099,536 which must be returned to the County as dictated by the County Contract (Schedule, p. 24).
- **Overreported revenue in the amount of \$70,672 was disallowed because it pertained to per diem funding that was reported by the Agency, but was not paid by the County for services provided during the period of audit.** Suffolk County per diem funding represents the amount paid to an agency for services rendered pursuant to the County Contract. The per diem rate is established by DSS based upon a proposed agency expense budget and an expected occupancy rate. However, we found that Suffolk County per diem payments reported by the Agency during the period of audit in the amount of \$13,292,141 were \$70,672 greater than the \$13,221,469 actually paid by the County, as reflected in DSS’s payment records. Therefore, an adjustment was

necessary to disallow \$70,672 of overreported per diem revenue (See p. 25, Notes to Schedules, note 1).

- **Expenses in the amount of \$2,599,547 were disallowed due to inappropriate charges to the County Program and costs that were prohibited by the RCM as detailed below.** As a result, reported expenses in the amount of \$12,325,203 exceeded audited expenses by \$2,599,547 (Schedule, p. 24).

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### **Compliance**

Our limited scope audit 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 were overreported by \$979,166 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, the financial reporting requirements of the RCM and the terms and conditions stated in the County Contract. 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 audit revealed the following:

- It was the Agency's responsibility to provide DSS with personal information concerning all employees (including management) that will come in direct contact with the shelter's clients. As required by §438 of the Laws of Suffolk County, the background of these employees must be reviewed and cleared by the County's Personnel Screening Review Committee. However, we found that the Agency's CEO/President was not screened at the inception of the Contract nor was a consultant who was contracted by the Agency to provide consulting and property and facility management services for the premises. In addition, when screened by DSS during the course of the limited scope audit, both of these individuals were found to have criminal convictions and were, therefore, barred from the Agency's premises. We believe that had the CEO/President, who is also a board member, been screened prior to the

execution of the contract it is doubtful that the County would have entered into a contract with the Agency. As a result, Salaries/Wages in the amount of \$70,769 (2013) and \$115,000 (2014) as well as the related Fringe Benefit expenses in the amounts of \$6,744 (2013) and \$25,300 (2014) are disallowed. In addition, the consultant's wages in the amounts of \$20,000 (2013) and \$60,000 (2014) are disallowed as well (See pp. 25, 26 and 27 Notes to Schedules, notes 3, 4, 7 and 10).

- Although the Agency was contractually required to maintain staff positions and salaries identical to those indicated in its budget as approved by DSS, our limited scope audit revealed numerous instances whereby reported salaries exceeded the approved budgeted amount for the position. We also found that certain positions that were reported by the Agency were not approved at all by DSS. Consequently, Salaries/Wages in the amount of \$116,864 (2013) and \$333,694 (2014) as well as the related Fringe Benefit expenses in the amounts of \$8,940 (2013) and \$25,528 (2014) are disallowed (See p. 25, Notes to Schedules, notes 3 and 4).
- The Agency purportedly permitted the Vice President of Administration to telecommute from Arizona even though it is DSS' policy that all employees work on site. We believe that a management position such as this cannot effectively supervise staff and handle daily problems as they arise without having a presence on site. Furthermore, the Agency did not provide us with any written documentation to support that this employee was providing a level of services to the Agency that was commensurate to the level of compensation paid to the individual. As a result, Salaries/Wages in the amount of \$43,846 (2013) and \$71,250 (2014) as well as the related Fringe Benefit expenses in the amounts of \$4,179 (2013) and \$15,675 (2014) are disallowed (See p. 25, Notes to Schedules, note 3 and 4).
- The Agency inappropriately reported \$61,377 of Bad Debt expense without receiving prior written approval from DSS, as required by the RCM. The RCM directs that a bad debt may only be claimed in a circumstance where the Housing Administrator for DSS has granted prior written approval. However, since the Agency did not request the required approval, \$61,377 (\$7,500 and \$53,877 for the calendar years ending December 31, 2013 and 2014 respectively) of reported Bad Debt Expense is disallowed (See p. 25, Notes to Schedules, note 5).

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**Repairs and Maintenance, Security, Professional Fees and Rent - Vehicles, Equipment, etc. expenses were overreported by \$981,704 due to inappropriate charges that we determined were contrary to, or in conflict with, the goals and**

**purposes of the County Contract.** Exhibit 1, paragraph 23 of the County Contract dictates that the Agency shall not delegate its duties under the Contract, or assign, transfer, convey, subcontract, sublet or otherwise dispose of the Contract to any other person, entity or thing without the prior written consent of the County. Furthermore, the County Contract dictates that the Agency will not engage in any activity that is contrary to and/or in conflict with the goals and purposes of the County. Our limited scope audit revealed the following:

- Although DSS provided the Agency with budgeted positions for maintenance and housekeeping staff, the Agency elected to subcontract these services rather than fill the positions as approved by DSS. As dictated by Exhibit 1 paragraph 23 of the County Contract, a decision such as this requires DSS' prior approval; however, no such approval was requested by the Agency or granted by DSS. Furthermore, sound business practice dictates that a decision such as this should have only been made in an effort to curtail costs or to acquire services that are not readily available to the Agency. However, we found that since this acquisition of easily accessible services substantially and unjustifiably increased the cost of the County program, it constituted a significant deviation from accepted business practice which we believe is contrary to and/or in conflict with the goals and purposes of the County. Consequently, reported Repairs and Maintenance expense in the amounts of \$98,675 (2013) and \$183,675 (2014) for housekeeping services as well as \$15,420 (2013) and \$127,572 (2014) for maintenance services are disallowed (See p. 27, Notes to Schedules, note 10).
  - At the inception of the County Contract, the Agency submitted and DSS duly approved, with adjustments, a budget of expenses anticipated to be incurred for the operation of the County program for the 2013 calendar year. DSS policy dictates that the reimbursement of the Agency's allowable expenses shall be limited to the maximum amounts approved by DSS for each expense classification included within the budget. Furthermore, since the Agency did not submit a budget request for the 2014 calendar year, DSS policy directs that it must adhere to the limitations established by the most recent (2013) DSS approved budget. However, since the Agency exceeded the established limitations for certain expense classifications, reported Rent - Vehicles, Equipment, etc. expense in the amounts of \$21,005 (2013) and \$34,489 (2014); reported Security expense in the amounts of \$29,618 (2013) and \$393,787 (2014), as well as; Professional Fees expense in the amounts of \$17,912 (2013) and \$59,551 (2014) are disallowed (See p. 26, Notes to Schedules, note 8).
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**Repairs and Maintenance expense was overreported by \$231,276 due to acquisitions which were consummated without the prior approval of DSS as dictated by the RCM.** The RCM dictates that prior written approval by DSS' Housing Administrator is required for any purchase of furniture, fixtures, equipment, supplies or any item whose cost exceeds \$750. However, our audit disclosed that the Agency did not duly obtain DSS approval prior to procuring \$231,276 of reported Repairs and Maintenance purchases from three corporations with which the Agency contracted to receive housekeeping, maintenance and exterminating services. We found that the acquisitions consisted of merchandise such as one purchase of playground equipment for a total of \$16,219, three purchases of bedding for a total of \$18,400, three purchases of bunk beds and mattresses for a total of \$138,710 and one purchase of microwaves, refrigerators and coffee makers for a total of \$44,733. Although the acquisitions consisted primarily of large purchases of similar items, none of which individually exceeded the \$750 threshold, an inquiry made by our office to DSS confirmed our understanding of the approval requirement in that the aggregate cost of similar items purchased together would dictate the approval requirement, not the individual cost of each item included in the purchase. Consequently, reported Repairs and Maintenance expense purchases in the amounts of \$767 (2013) and \$3,683 (2014) from GBM Services, Inc.; \$185,073 (2013) and \$26,120 (2014) from Golden Touch Group, Inc., as well as; \$10,692 (2013) and \$4,941 (2014) from Long Island Exterminating are disallowed (See p. 27, Notes to Schedules, note 10).

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**Telephone, Utilities, Repairs and Maintenance and Rent – Building Expenses were overreported by \$368,572 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 expenses for which it did not provide 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:

- During the early stages of operation, the Agency's CEO/President withdrew \$228,000 in cash from its bank account. The cash was purportedly given to the landlord to be held in escrow by the landlord's attorney until the Agency took possession of the property. Although the landlord's attorney verbally confirmed the receipt of funds, we were unable to conclusively confirm through written documentation that the funds were actually received. Consequently, reported Rent - Building expense in the amount of \$228,000 (2013) is disallowed (See p. 26, Notes to Schedules, note 6). It is important to note that sound business practice dictates that with the exception of minimal cash transactions made through petty cash the utilization of cash for the daily operation of an agency is not a prudent way to conduct agency business or to sufficiently safeguard county funding. As a result, we believe that the consummation of this transaction constituted a significant deviation from accepted business practice which is contrary to and/or in conflict with the goals and purposes of the County.
- The Agency reported \$16,065 of expenses for which it did not provide us with any written documentation substantiating that the expenses benefited the County program or complied with applicable laws, contracts and regulations. The over reported expenses were comprised solely of amounts reported to the County on the Agency's Homeless Shelter Provider Financial Statements in excess of amounts recorded in its general ledger. As a result, Telephone expense in the amount of \$4,838 (2013) as well as Utilities expense in the amount of \$11,227 (2013) is disallowed (See p. 26, Notes to Schedules, note 9).
- The Agency reported as Repairs and Maintenance expense seven journal entries totaling \$124,507 (2013) for which it did not provide us with any written documentation substantiating that the expenses benefited the County

program or complied with applicable laws, contracts and regulations. Consequently, these reported expenses are disallowed (See p. 27, Notes to Schedules, note 10).

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**The Agency did not duly disclose to our office the existence and nature of any current litigation in which it was involved.** At the inception of our limited scope audit the Agency was required to provide our office with certain written representations, one of which was the disclosure of any current litigation in which it is involved. At that time the Agency represented that it was not involved in any litigation. However, during the course of the audit we found that the Agency was, in fact, involved in ongoing litigation with its largest creditor that, if successful, would substantially impact the County program. The creditor's recourse would be to attach all of the Agency's assets, which are contractually the property of the County, as well as assume control over its management.

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**The audit disclosed certain questionable business transactions that did not result in monetary adjustments but could not be conclusively resolved due to the County's termination of the Agency's contract.** The County Contract dictates that it is the Agency's duty to discharge, or cause to be discharged, all of its responsibilities, and to administer funds received in the interest of the County in accordance with the provisions of the Contract. The Contract further directs that the Agency will not engage in any activity that would cause a reasonable person to believe is contrary to and/or in conflict with the goals and purposes of the County and that the Agency is charged with the duty to disclose to the County, the existence of any such adverse interests, whether existing or potential. Although DSS provided the Agency with a \$546,859 advance to be

used for start-up costs, our limited scope audit disclosed the following questionable loan agreements.

- Without DSS' written approval, on April 19, 2013 the Agency entered into a loan agreement with JASP 2013 Trust (JASP) for \$735,000. The loan bore an interest rate of 6% which accrued during the term of the loan and was payable with the principal on either April 18, 2018 or upon the termination of the Agency's contract with the County, whichever comes first. Through a review of the Agency's bank statements we confirmed the Agency's receipt of \$151,730 of the loan proceeds which were purportedly used for working capital. We were unable to verify receipt of the remaining \$583,270 which was purportedly paid directly from JASP to the Agency's landlord on behalf of LIWEN for various expenses such as a \$280,000 security deposit and \$303,270 of franchise termination fees. Furthermore, since the Agency did not provide any substantiating documentation supporting these expenses we were unable to conclusively confirm that these expenses were actually paid to the landlord on behalf of the County Program. Discussions held between DSS and a representative of the facility's successor owner disclosed that the \$280,000 security deposit was not remitted to him when the property changed hands during the previous owner's bankruptcy. Pursuant to an act of the Agency's Board of Directors that was consummated on the same day as the loan agreement, the Agency purportedly forced the resignation of two of its board members and replaced them with persons meeting the approval of JASP 2013 Trust. However, our review of the Agency's Federal form 990 for both the calendar years ending December 31, 2013 and 2014 disclosed that the individuals who purportedly resigned from the Agency's Board of Directors on April 19, 2013 were still active board members and that the individuals approved by JASP 2013 Trust were not on the Agency's Board of Directors. It is important to note that the two individuals who purportedly resigned were also represented to the Suffolk County Legislature on June 10, 2013 as active board members. Consequently, since we were unable to determine whether this loan agreement benefited the County Program, we do not believe that an agreement of this nature is in the County's best interest and, therefore, should not have been consummated without the County's prior knowledge and approval.
- Without DSS' written approval, on July 11, 2013 the Agency entered into a second loan agreement with 26<sup>th</sup> Commack Management and JASP Commack Management/JASP 2013 Trust and Commack Hospitality Reserve, LLC (Lender) for \$125,000 which was personally guaranteed by the Agency's CEO/President. The loan required repayments of \$188,000 and \$52,000 in August 2013, with a remaining balance due of \$51,000. Our review disclosed that the total loan satisfaction of \$291,000 consisted of \$125,000 of loan principal \$165,880 of management fees and

\$120 of interest. As collateral for the loan the Agency pledged all of the corporation's board seats (with the exception of the Agency's current CEO/President) and issued 2 postdated checks in the amounts of \$188,000 and \$51,000 both payable to Commack Hospitality Reserve, LLC in August 2013. In addition, pursuant to the loan agreement and an accompanying Security Agreement the Lender was granted an unconditional priority security interest in the shelter. As a result of our audit findings detailed below we do not believe that this loan agreement is in the County's best interest and, therefore, should not have been consummated without the County's prior knowledge and approval:

- Although, the bank statements did contain a \$125,000 payment from the Agency to Commack Hospitality Reserve, LLC which was posted to the bank account on August 27, 2013, they did not contain a deposit of funds totaling \$125,000. As a result, we could not conclusively confirm the receipt of \$125,000 of loan proceeds.
- The management fees referred to in the loan agreement related to a facility management agreement between the landlord and the lender to which the Agency was not a party and contractually had no obligation to pay.
- When the lender attempted to negotiate the checks they never cleared the Agency's bank account.
- The Agency did not provide us with the Security Agreement and, therefore, we were unable to conclusively determine the extent of the Lender's security interest in the shelter. However since pursuant to Exhibit 1 (23) (a) of the County Contract, the Agency is prohibited from assigning, transferring or conveying the Contract, or any of its right, title or interest therein to any other person, entity or thing without the prior written consent of the County, the Agency did not have the authority to assign a security interest in the shelter. Furthermore, Article II (2) (b) which affords the County with a proprietary interest in all furniture, removable fixtures, equipment, materials, and supplies purchased or obtained by the Agency and paid for or reimbursed to the Agency pursuant to the terms of the Contract or any prior agreement between the parties the Agency did not have the authority to pledge any of its assets as collateral for the loan agreement.
- Although it is customary business practice to pay monthly facility rental charges directly to the landlord of the facility our limited scope audit revealed that, during the period March 31, 2014 through January 7, 2015, the Agency was remitting its monthly rental payments to its attorney. During the term of the lease agreement between Commack Hospitality LLP. (Landlord) and the Agency, the Landlord filed

for bankruptcy. Our review of the Agency's rental payments disclosed that during this time the Agency had fallen into arrears with respect to its monthly rental payments. After paying three monthly rental charges over the period August 2013 through November 2013, the Agency inexplicably ceased making payments to the bankruptcy trustee and began remitting both the current as well as the outstanding monthly payments to its attorney effective March 31, 2014. In or about September 2014, Rover 2014 LLC acquired title to the facility and entered into a lease agreement with the Agency; however, the lease payments continued to be remitted to the Agency's attorney. Although we were able to verify that the Agency did pay the proper amount of annual rent, due to the termination of the Agency's contract with the County as well as the original landlords bankruptcy we were unable to conclusively confirm that the payments were received by their intended party. Furthermore, although our review of the Agency's financial records did not disclose any amounts due to the Landlord, correspondence from the Landlords bankruptcy attorney states that the Landlord is a substantial creditor of the Agency whose obligations to the Landlord are secured pursuant to an order of the United States Bankruptcy Court. Although at no time during the Agency's operation was it displaced from the facility due default on its rental payments, we do not believe that the aforementioned conditions constitute sound business practice nor are they in the County's best interest.

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### **Internal Control**

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

**Repairs and Maintenance and Rent - Building expenses were overreported by \$38,829 due to mathematical inaccuracies and accounting errors that were the direct result of significant deficiencies in the Agency's system of internal controls relative to the processing of program expenses.** We found that the Agency did not have an adequate review process over the recording of transactions to provide assurance that all transactions were accurate, complete, properly classified and recorded in

accordance with the accrual method of accounting. Our limited scope audit disclosed the following:

- The Agency incorrectly recorded a \$37,500 accrual of building rent expense that was purportedly required by an amendment to the associated lease agreement. However, since our review of the lease amendment disclosed no such requirement, the related accrual is disallowed (See p. 26, Notes to Schedules, note 6).
- The Agency erroneously reported \$1,329 of Repairs and Maintenance expense that included calculation inaccuracies. Accordingly, an audit adjustment was necessary to disallow \$1,329 (2013) of overreported Repairs and Maintenance expense (See p. 27, Notes to Schedules, note 10).

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**The severe lack of segregation of duties related to the Agency's collection and subsequent deposit of program revenue increases the risk that defalcation could occur without detection.** Our audit disclosed that all of the Agency's mail was delivered to its corporate office located at 29 First Avenue, Central Islip, New York, which is also the personal residence of the Agency's CEO/President. The CEO/President opened the mail, received the vendor remittance statement and the associated check from DSS, prepared the deposit slip and made the bank deposit with no documented second-party verification by an employee independent of the processing function.

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**The Agency's review and approval of the business activities performed by its independent contractors was severely inadequate.** Two independent contractors performed the daily functions of a facility manager and a property manager. Both of these individuals performed their respective functions, on site during the Agency's business hours, utilizing office facilities and office equipment provided by the Agency at no charge to the independent contractors. These individuals were responsible for the general repairs and up-keep of the facility relative to the health, safety, security of the

clients. In addition, the Agency's security function was provided through a subcontract between one of its primary independent contractors and a third party (Security Company) rather than through direct contract with the Security Company. Since all payments for security services were paid to the primary independent contractor, whose principal business was the provision of housekeeping services, we believe that there exists a risk that the service rate charged by the intermediary may be unduly inflated. The limited scope audit disclosed the following:

- The Agency's facility manager was provided with an agency debit card, issued in his name, for the purpose of procuring goods and services on the Agency's behalf. The purchases, although limited by agency policy to \$500 without requiring written approval, were generally made with only verbal approval by the Agency's CEO/President regardless of the monetary amount. Furthermore, many of the goods and services were provided by staff employed by the facility management company without the bidding process required by the RCM for certain purchases. In addition to purchasing various supplies and materials, this independent contractor was also responsible for receiving the related shipments as well as verifying their contents for accuracy. We believe that it is a questionable business practice and therefore contrary to and/or in conflict with the goals and purposes of the County to afford the principal of an independently contracted facility management company with the authority to procure, verify and approve for payment goods and services that have been acquired with Agency funds without a formal bidding process and with little or no documented oversight from the Agency's management.
- The Agency's property manager was independently contracted by the Agency to provide consulting and property and facility management services for the premises. As such, this individual was authorized to procure the goods and services on behalf of the Agency necessary to fulfil his responsibilities. This individual was also responsible for monitoring the security and housekeeping services provided by other subcontractors. Similar to the facility manager the purchases made by this individual, although limited by Agency policy to \$500 without requiring written approval, were generally made with only verbal approval by the Agency's CEO/President regardless of the monetary amount. Furthermore, many of the goods and services were procured without the bidding process required by the RCM for certain purchases. In addition to purchasing various supplies and materials, this individual was also responsible for receiving the related shipments as well as verifying their contents for accuracy. We believe that it is a questionable business practice and therefore contrary to and/or in conflict with the goals and purposes of the County to afford an independent contractor with the authority to procure, verify and

approve for payment, goods and services that have been acquired with Agency funds without a formal bidding process and with little or no documented oversight from agency management. It should be noted that this independent contractor was not screened at the inception of the contract, but when later screened by DSS during the course of the audit, was found to have a criminal conviction and was, therefore, barred from the Agency's premises (See pp. 26 and 27, Notes to Schedules, notes 7 and 10).

- Exhibit 1 (23) of the County Contract dictates that any assignee of the services provided under the County Contract shall be subject to all of the provisions of the County Contract. However, this does not release the Agency from any term or provision of the Contract, as the Agency is ultimately responsible for overall compliance with the County Contract. Therefore since Exhibit 2 (2) of the County Contract directs that the County Contract is subject to the Living Wage Law of the County of Suffolk, it is the duty of both the Agency and its subcontractors to read, become familiar with, and comply with the requirements of Chapter 575, of the Suffolk County Code.

The Living Wage Law requires that, unless specific exemptions apply, all employers (as defined) under service contracts and recipients of County financial assistance, (as defined) shall provide payment of a minimum wage to employees as set forth in the Living Wage Law. To confirm that the Security Company was in compliance with the Living Wage Law as well as to ensure that the hourly rate for security services was not unduly inflated by the intermediary subcontractor we requested that the Agency obtain the Security Company's payroll records for our review. However, since the Agency did not provide us with the subcontractor's payroll records, nor did it provide us with any documentation to substantiate that it duly monitored the subcontractor's compliance with the Living Wage Law, we were unable to conclusively determine if the Security Company was in compliance with the Living Wage Law or if the hourly rate was unduly inflated by the intermediary subcontractor. It is important to note that a second request for the payroll records was made directly to the Security Company by the Suffolk County Department of Labor; however, no such records were provided.

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## CONCLUSION

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Our limited scope audit of the period February 1, 2013 through December 31, 2014 was subsequently terminated as a result of the County's decision to cancel the Agency's contract with the County effective March 23, 2016. The contract was cancelled primarily due to circumstances such as the following:

- The Agency's blatant disregard of the County Contract's budget constraints.
- The Agency's stern unwillingness to return to the County excess funding that, in accordance with Article II (9) (a) of the Contract, must be returned to the County.
- The Agency's misrepresentation to our office that it was not involved in any litigation concerning the County Program when, in fact, the Agency was a party to ongoing litigation with its largest creditor that, if successful, would substantially impact the County program.
- The Agency's inadequate safeguarding of County funding.
- The Agency's reporting of numerous questionable costs and material non-compliance with the County Contract and applicable laws and regulations.

Through a concerted effort between the Suffolk County Office of the Comptroller and DSS, the operation of the Homeless Shelter Facility located at 801 Crooked Hill Road, Brentwood, New York was transitioned to another Homeless Shelter Provider with virtually no lapse in services to the shelter's existing clients. Furthermore, employment of the majority of the Agency's former front line staff was transitioned to the successor Homeless Shelter Provider as well.

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## **SCHEDULES**

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

**Schedule**

**Long Island Women's Empowerment Network, Inc.  
Statement of Revenue, Expenses and Net Audit Adjustment  
For the Period February 1, 2013 through December 31, 2014**

<b>Notes</b>	<b>Description</b>	<b>February 1, 2013 through December 31, 2013</b>	<b>January 1, 2014 through December 31, 2014</b>	<b>Combined Total</b>
	Reported Program Revenues	\$ 4,526,636	\$ 8,898,103	\$ 13,424,739
	Less: Reported Expenses	4,765,466	7,559,737	12,325,203
(1)	Total Reported Over/(Under) Funding for Audit Period	(238,830)	1,338,366	1,099,536
	Revenue Adjustments:			
(2)	Suffolk County Per Diem Funding	(137)	(70,535)	(70,672)
	Total Revenue Adjustments	(137)	(70,535)	(70,672)
	Expense Adjustments:			
(3)	Salaries/Wages	231,479	519,944	751,423
(4)	Fringe Benefits	19,863	66,503	86,366
(5)	Bad Debt	7,500	53,877	61,377
(6)	Rent - Building	265,500	-	265,500
(7)	Consulting	-	60,000	60,000
(8)	Rent - Vehicles, Equipment	21,005	34,489	55,494
(8)	Security	29,618	393,787	423,405
(8)	Professional Fees	17,912	59,551	77,463
(9)	Telephone	4,838	-	4,838
(9)	Utilities	11,227	-	11,227
(10)	Repairs & Maintenance	456,463	345,991	802,454
	Total Expense Adjustments	1,065,405	1,534,142	2,599,547
	Total Amount Due Suffolk County	\$ 826,438	\$ 2,801,973	\$ 3,628,411

See Notes to Schedule (p. 25)

Notes to Schedules

Long Island Women's Empowerment Network, Inc.

(1) Total Reported Over/ (Under) Funding for Audit Period represents County funding reported by the Agency in excess of total expenses reported by the Agency on behalf of the County Program. According to the County Contract, these excess funds are required to be returned to the County.

(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 budget proposed by the Agency and a review of its expenses. We found that the per diem payments reported by the Agency exceeded the actual per diem payments made by DSS in the amount of \$70,672 (\$137 and \$70,535 for the calendar years ending December 31, 2013 and 2014 respectively).

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

	<u>2013</u>	<u>2014</u>
Unapproved wages – personnel for which the Agency did not properly seek DSS screening and approval	\$ 70,769	\$ 115,000
Excess wages paid over budget	116,864	333,694
Unallowable wages – telecommuting employee	<u>43,846</u>	<u>71,250</u>
Total	<u>\$ 231,479</u>	<u>\$ 519,944</u>

(4) The Fringe Benefits Expense adjustment consists of the following disallowed expenses:

	<u>2013</u>	<u>2014</u>
Fringe benefits associated with unapproved wages	\$ 6,744	\$ 25,300
Fringe benefits associated with Excess wages paid over budget	8,940	25,528
Fringe benefits associated with unallowable wages	<u>4,179</u>	<u>15,675</u>
Total	<u>\$ 19,863</u>	<u>\$ 66,503</u>

(5) The Bad Debt adjustment consists of the \$61,377 of Bad Debt expense (\$7,500 and \$53,877 for the calendar years ending December 31, 2013 and 2014 respectively) that was reported without receiving prior written approval from DSS, as required by the RCM.

Notes to Schedules

Long Island Women's Empowerment Network, Inc.

- (6) The Rent - Building Expense adjustment consists of the following disallowed expenses:

	<u>2013</u>
Lack of sufficient supporting documentation	\$ 228,000
Accounting Error	<u>37,500</u>
Total	<u>\$ 265,500</u>

- (7) Chapter 438 of the Laws of Suffolk County dictates that the background of all prospective individuals who will come in direct unsupervised contact with the clients must be reviewed and cleared by the County's Personnel Screening Review Committee. However, we found that an independently contracted consultant was never submitted to the committee for review and approval. As a result, Consultant expense reported for the calendar year ending December 31, 2014 in the amount of \$60,000 is disallowed.

- (8) DSS limits the reimbursement of expenses to the maximum amounts approved for each expense classification included within an agency's budget as approved by DSS. However, since the Agency did not adhere to the limitations for certain expense classifications, disallowances to reported expenses are necessary as follows:

	<u>2013</u>	<u>2014</u>
Rent-Vehicles, Equipment, etc.	\$ 21,005	\$ 34,489
Security Expense	29,618	393,787
Professional Fees	<u>17,912</u>	<u>59,551</u>
Total	<u>\$ 68,535</u>	<u>\$ 487,827</u>

- (9) The Agency reported certain expenses for which it did not provide us with any written documentation substantiating that the expenses 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, disallowances to reported expenses are necessary as follows:

	<u>2013</u>
Telephone Expense	\$ 4,838
Utilities Expense	<u>11,227</u>
Total	<u>\$ 16,065</u>

Notes to Schedules

Long Island Women's Empowerment Network, Inc.

- (10) The Repairs and Maintenance Expense adjustment consists of the following disallowed expenses:

	<u>2013</u>	<u>2014</u>
Payments made to subcontractors in excess of budgeted amounts approved by DSS:		
GBM Services, Inc.	\$ 98,675	\$ 183,675
Golden Touch Group, Inc.	15,420	127,572
Lack of Sufficient Documentation	124,507	
Accounting Error - calculation inaccuracy	1,329	
Unapproved costs because they exceeded \$750 but were not preapproved by DSS		
GBM Services, Inc.	767	3,683
Golden Touch Group, Inc.	185,073	26,120
Long Island Exterminating	10,692	4,941
Unapproved wages - Independent contractor for which LIWEN did not properly seek DSS screening and approval	20,000	
Total	<u>\$ 456,463</u>	<u>\$ 345,991</u>

## **APPENDICES**

APPENDIX A  
Agency's Response to Report

See Audit & Control's  
Comments (p. 30)

Long Island Women's Empowerment Network, Inc.  
29 First Avenue, Central Islip, NY 11722  
j.levine@longislandwen.org

June 27, 2016

VIA EMAIL & HAND DELIVERY

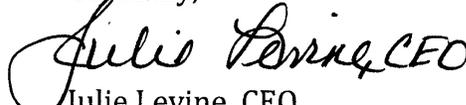
Mr. Frank Bayer, Executive Director Auditing Services  
Office of the Comptroller  
H. Lee Dennison Bldg.  
100 Veterans Memorial Highway  
Hauppauge, NY 11788

Dear Mr. Bayer:

I am in receipt of your letter dated June 13, 2016, and advised by counsel that the report is considered an "unofficial draft report of a limited scope audit" for the period February 1, 2013 through December 31, 2014.

To clarify, your office instructed the Executive LIWEN staff not to remove any documents, correspondence, financial data from the premises known as 801 Crooked Hill Road, Brentwood, NY 11717. To address your allegations and personnel objections, without the 2013 and 2014 LIWEN documents, response at this time would be impossible.

I reserve my right to respond to the audit once an "official and final" report is issued.

Cordially,  
  
Julie Levine, CEO

CC/ Louis A. Necroto, Chief Deputy Comptroller  
Steve McMaster, Senior Investigative Auditor  
Al Rogers, Vice President LIWEN  
Bradley Schnur, Esq.  
Fred Lichtmacher, Esq.

**APPENDIX B**

**Exit Conference Report**

**Auditee: Long Island Women's Empowerment Network, Inc.**

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The draft audit report was hand delivered to the Agency on June 13, 2016 with a letter inviting the Agency to submit a formal written response within 15 days of receipt of the report. As such, the response must be received by our office no later than June 28, 2016.

On June 27, 2016, we received a letter from the Agency's CEO/President (Appendix A, p. 29) which stated that a formal response to the draft audit report is impossible at this time since the Agency's documents, correspondence and financial data necessary to address the audit findings are not in her possession. The CEO/President did not request access to the audit documentation or the Agency's financial records nor did she request an extension of time in which to respond to the audit. However, she did request to reserve the right to respond to the audit until a final report is issued.

During our August 18, 2015 entrance conference with the Agency's CEO/President, we described in detail the ordinary conduct of the audit process. We explained that, upon completion of the audit field work and issuance of the draft audit report, the Agency would be afforded sufficient time in which to prepare a formal written response. We further explained that, upon request, the Agency would be permitted access to all pertinent audit documentation and any other information necessary for the Agency to effectively respond to the audit. However, this process must be completed within the allotted timeframe in order for the formal written response to be included as an appendix within the final audit report.

In order to preserve the integrity of the Agency's records until completion of the audit, upon termination of the Agency's contract with the County, we instructed the Agency to provide us with all accounts, books, records, documents and other evidence relative to the County Program for the period February 1, 2013 through March 16, 2016. However, it is important to note that at no time during the June 13, 2016 through June 28, 2016 allotted response time did the Agency request access to its corporate records or the audit documentation. As a result, since the Agency's period of time in which to submit a formal written response to the audit has elapsed, the draft audit report has been finalized and no additional opportunity to submit a formal written response will be afforded the Agency.