SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER
AUDIT DIVISION

John M. Kennedy, Jr.
Comptroller

A Limited Scope Audit of
Never Alone, Never Afraid, Inc.
Emergency Housing Services
For the Period
January 1, 2013 through December 31, 2013

Report No.: 2015-06
Date Issued: July 10, 2015

SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER

John M. Kennedy, Jr.
Comptroller

Louis A. Necroto, CPA
Chief Deputy Comptroller

Frank Bayer, CPA
Executive Director of Auditing Services

Audit Staff:

Stephen McMaster, Senior Investigative Auditor
Deborah Bollinger, CPA, Auditor

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LETTER OF TRANSMITTAL

March 2, 2015

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. (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) as well as a limited scope audit for the period November 1, 2007 through December 31, 2012 (Report No. 2014-20). The audits identified material instances of noncompliance with regulations and contractual requirements and reportable internal control deficiencies which resulted in material expense adjustments, some of which affected subsequent reporting periods. It was, therefore, determined that certain reported account classifications should also be subjected to audit testing for the period January 1, 2013 through December 31, 2013.

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 January 1, 2013 through December 31, 2013 period. 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 audits of the periods November 1, 2006 through October 31, 2007 and November 1, 2007 through December 31, 2012 adversely affected the Agency's reported account balances for the period January 1, 2013 through December 31, 2013.

- 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 issued by the Comptroller General of the United States. 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 Net Audit Adjustment and the related Statements (collectively referred to as the Statements) for the period January 1, 2013 through December 31, 2013 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 January 1, 2013 through December 31, 2013, it was determined that the Agency was overpaid by Suffolk County in the amount of $354,684 (Schedule 1, p. 13). 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 January 1, 2013 through December 31, 2013, at some future date.

Respectfully submitted,

Frank Bayer, CPA
Executive Director of
Auditing Services

DB/SM

SUMMARY OF SIGNIFICANT FINDINGS

County Funding – As a result of our audit of the period January 1, 2013 through December 31, 2013, we determined that the Agency was overpaid $354,684 by Suffolk County (Schedule 1, p. 13). The overpayment resulted primarily from the following audit adjustments:

- Reserve Funds established by the Agency in prior periods in the amount of $25,000, which had not been utilized by the Agency within the four year expenditure period required by the RCM, were recognized as surplus revenue which must be returned to the County (p. 6).

- Reported costs in the amount of $217,646 were disallowed because they did not benefit the County funded program; were determined to be unreasonable and unnecessary; or were not in accordance with the RCM or the County Contract (p. 6).

- The Agency reported $112,038 in excess funding for the audit period which, as dictated by the County Contract, must be returned to the County (p. 6).

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. 6):

- Salaries/Wages, Fringe Benefits and other expenses are over-reported by $209,857 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; expenses that do not benefit the County Program and acquisitions that were not preapproved by DSS as directed by the RCM. (p. 7).

- 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 $8,265 (p. 8).

Internal Controls – Our review of internal controls disclosed the following significant deficiencies (p. 10):

- Reported Depreciation Expense is underreported by $476 due an accounting error (p. 10).

- The Agency did not have an adequate review process over the recording of transactions to provide assurance that all transactions were properly classified (p. 10).

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) as well as a limited scope audit for the period November 1, 2007 through December 31, 2012 (Report No. 2014-20). The audits identified material instances of noncompliance with regulations and contractual requirements and reportable internal control deficiencies which resulted in material expense adjustments, some of which affected subsequent reporting periods. It was, therefore, determined that certain reported account classifications should also be subjected to audit testing for the period January 1, 2013 through December 31, 2013.

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 January 1, 2013 through December, 2013 to ensure that similar conditions or additional unusual transactions or account classifications did not exist during the subsequent period.

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 the Department of Social Services approvals for purchases over $750 and/or for Reserve Fund usage for the period January 1, 2013 through December 31, 2013.

- 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 January 1, 2013 through December 31, 2013.

- Reviewed each General Ledger account to determine if audit adjustments similar to those disclosed by our audit of the November 1, 2007 through December 31, 2012 were necessary.

- Reviewed the General Ledger details and Homeless Shelter Provider Financial Statements for the January 1, 2013 through December 31, 2013 period of audit for any unusual transactions or account classifications.

FINDINGS AND RECOMMENDATIONS

County Funding

As a result of our audit of the period January 1, 2013 through December 31, 2013, we determined that the Agency was overpaid $354,684 by Suffolk County (Schedule 1, p. 13). The overpayment resulted primarily from the following:

- 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 the period January 1, 2013 through December 31, 2013 the Agency reported as an offset to excess revenue a Reserve Fund contribution in the amount of $25,000 (Schedule 1, p. 13). In addition, we found that $25,000 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. Accordingly, the unused reserve funds are recognized as additional revenue of the County Program (See p. 15, Notes to Schedule, notes 3 and 4).

- The Agency reported total program expenses of $1,561,858 (See Schedule 2, p. 14). The audit determined that the Agency's adjusted program expenses were $1,344,212, resulting in disallowed expenses of $217,646 (See Schedules 2, p. 14). 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 $1,673,896. However, this amount exceeded reported program expenses in the amount of $1,561,858 by $112,038 (See Schedule 1, p. 13). As dictated by the Agency's Contract with the County, this excess funding 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 $209,857 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 $144,416 and $16,936 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 positions of the Bookkeeper and Head of Maintenance were not approved at all and had been eliminated from the budget by the DSS. As a result, $144,416 of reported Salaries/Wages Expense and $16,936 of the related fringe benefit expenses are disallowed (See p. 15, Notes to Schedule, note 5).

- 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, rent charges associated with the Agency's Bingo Program, which is not part of the County Program. As a result, $33,175 of reported Rent- Building Expense was disallowed (See p. 16, Notes to Schedule, note 9).

- 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:

  •• The Agency did not obtain the required prior approval from DSS for $11,145 of merchandise purchased from a vendor specializing in custom printing of t-shirts and other apparel. Accordingly, $11,145 of reported Other Expenses is disallowed (See p. 16, Notes to Schedule, note 11).

- The Agency reported as Dues and Subscriptions $980 related to the cost of membership in a civic association for which it did not receive prior written approval from DSS. As a result, $980 of reported Dues and Subscriptions is disallowed (See p. 16, Notes to Schedule, note 7).

- Depreciation Expense in the amount of $3,205 was reported for a surveillance system costing $10,360 purchased on October 1, 2008 and an upgrade to the surveillance system costing $8,255 purchased on March 1, 2009. However, since prior approval was not obtained from DSS for the acquisition of these fixed assets the related depreciation expenses are disallowed (See pg. 15, Notes to Schedule, note 6).

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Recommendation 1

The Agency should screen expenses to ensure they are reasonable, necessary and directly related to the program. To be reimbursable, reported expenses must comply with the requirements of the RCM. 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.

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 $8,265. 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 was improperly reported as Direct Program. The necessary reclassifications consisted of the following:

Direct Program Expense reclassified as Administrative Expense	
Salaries	$ 31,501
Fringe Benefits	3,694
Rent	17,116
Repairs and Maintenance	3,100

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, $8,265 of excessive administrative expenses is disallowed (See p. 16, Notes to Schedule, note 12).

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 generally accepted government auditing standards:

Reported Depreciation is underreported by $476 due to an accounting error. We found that 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. 15, Notes to Schedule, note 6).

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 reported as Other Expense, $6,293 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 $6,293 decrease to reported Other Expense and a corresponding increase to reported Office Expense (see p. 16, Notes to Schedule, Note 8).

- The Agency incorrectly reported as Utilities Expense, $2,648 of costs related to gasoline that was purchased for vehicles used by employees for agency purposes which, according to the RCM, should have been reported as Travel Expense. We reclassified these costs accordingly, resulting in a $2,648 decrease in reported Utilities Expense and a corresponding increase to Reported Travel Expense (See p. 16, Notes to Schedule, note 10).

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.

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 January 1, 2013 through October 31, 2013

Notes	Description	Amount Reported	Audit Adjustments	Adjusted Amount
(1)	Suffolk County Per Diem Funding	$ 1,692,021	$ -	$ 1,692,021
(2)	Other Per Diem Revenue/Client Contributions	6,875	-	6,875
	Capital Reserve:			
(3)	Capital Reserve Fund Contribution	(25,000)	-	(25,000)
(4)	Contractually Mandated Release of Capital Reserve Funds	-	(25,000)	25,000
	Total Revenues	1,673,896	(25,000)	1,698,896
	Total Expenditures (from Schedule 3):	1,561,858	217,646	1,344,212
	Total Amount Due Suffolk County For Audit Period	$ 112,038	$ (242,646)	$ 354,684

See Notes to Schedules (p. 15)

Schedule 2

Never Alone, Never Afraid, Inc.
Statement of Reported and Adjusted Expenses
For the Period January 1, 2013 through December 31, 2013

Notes	Description	Amount Reported	Amount Over (Under) Reported	Adjusted Amount
(5)	Salaries/Wages	804,529	$ 144,416	660,113
(5)	Fringe Benefits	308,596	16,936	291,660
	Advertising	3,000	-	3,000
	Continuing Education	230	-	230
(6)	Depreciation & Amortization	3,205	2,729	476
(7)	Dues and Subscriptions	1,405	980	425
	Food	261	-	261
	Interest	566	-	566
	Insurance	24,433	-	24,433
(8)	Office Expense	3,668	(6,293)	9,961
	Professional Fees	29,820	-	29,820
(9)	Rent- Building	218,835	33,175	185,660
	Repairs & Maintenance	22,450	-	22,450
	Telephone	6,971	-	6,971
(10)	Travel	3,318	(2,648)	5,966
(10)	Utilities	68,681	2,648	66,033
(8) (11)	Other Expense	84,956	17,438	67,518
(12)	Administrative Cap Adjustment	(23,066)	8,265	(31,331)
	Total Expenses	$ 1,561,858	$ 217,646	$ 1,344,212

Notes to Schedules

Never Alone Never Afraid, Inc.

(1) Suffolk County per diem funding is the amount reported by the Agency as being paid by the County for services rendered pursuant to its contract with the County. The County was contractually required to pay 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) Other Per Diem Revenue/Client contributions are payments made by the Agency's clients who have been determined by DSS to be financially capable of contributing to the cost of services rendered. The Agency is responsible for collecting this contribution each month from the clients.

(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 January 1, 2013 through December 31, 2013 the Agency reported as an offset to excess revenue a Reserve Fund contribution in the amount of $25,000.

(4) We found that $25,000 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. Therefore, as required by the RCM, an adjustment was necessary to recognize $25,000 of unused reserve funds as surplus which must be returned to the County.

(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 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 $144,416 and related Fringe Benefit Expense in the amount of $16,936 are disallowed.

(6) The Depreciation and Amortization adjustment consists of the following:

Accounting Error-Asset incorrectly reported under Other Program	$ (476)
Disallowed costs related to assets acquired without DSS approval	3,205
Total	$ 2,729

Notes to Schedules

Never Alone Never Afraid, Inc.

(7) The Dues and Subscriptions adjustment consists of $980 of expenses that were disallowed because they pertained to membership in a civic association that was obtained by the Agency without prior approval from DSS.

(8) The Agency incorrectly reported as Other Expense, $6,293 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. As a result, an audit adjustment was necessary to correctly classify these expenses.

(9) The Rent-Building adjustment consists of $33,175 of rental payments that were disallowed because they pertained to the Agency's Bingo Program and therefore did not benefit the Homeless Shelter Program.

(10) The Agency incorrectly reported as Utilities Expense, $2,648 of costs related to gasoline that was purchased for vehicles used by employees for agency purposes which, according to the RCM, should have been reported as Travel Expense. As a result, an audit adjustment was necessary to correctly classify these expenses.

(11) The Agency inappropriately reported as Other Expense an $11,145 merchandise acquisition for which it did not obtain prior approval from DSS as directed by the RCM. As a result, an audit adjustment is necessary to disallow the related expense.

(12) 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 $8,265. Accordingly, an audit adjustment of $8,265 was necessary to disallow excess administrative costs.

APPENDICES

APPENDIX A

See Audit & Controls Comments (p. 21)

NANA'S HOUSE

Never Alone, Never Afraid Inc.

14 Herkimer Street

Mastic, NY 11950

(631) 874-9100 Fax# 874-5434

March 3, 2015

Office of the county Comptroller
100 Veterans Memorial Highway
Hauppauge, NY 11788

RE: Audit Report January 1, 2013-December 31, 2013.

Dear Mr. Bayer

Below is my response for the disallowances claimed by your office for the period of January 1, 2013 through December 31,2013.

The positions referred to in the report were in fact approved positions. I am enclosing a Combined (family & Single) budget I created. These numbers come from both APPROVED budgets. The family budget was approved in 2008 and the Singles budget was approved in 2013 these are two SEPERATE budgets.

1. The Bookkeeper and Head of Maintenance positions were approved in the budget to be charged to the family sites. They were removed from the singles budget and we were told we had to open 3 sites before we could charge any of those position expenses to the singles budget. I am enclosing email correspondence to support my claim. The additional salaries were covered by our fundraisers. Also, Herbert Smalls when reduced in 2008 to PT was working both the program director and Housing worker positon. His salary was charged to both of those positions and was not over the budgeted amount. We met with David Mohr for a budget meeting and he suggested that an employee who was reduced to part time work two positions to accommodate his full time hours.

APPENDIX A (Cont'd)

See Audit & Controls Comments (p. 21)

2. Shirts were ordered to be used to identify staff members. Since we have such a turnover of staff and residents, this was done for the safety of our residents. The cost of shirts was included in the budget under "consumables" and the charges were reported as such in the cost report. This purchase did not require authorization since the shirts were not over $750 dollars. There is no difference than a sheet or cleaning supply purchase in which the total order would exceed $750. Nowhere in the reimbursement cost manual does it state that a combined purchase must be under $750. Additionally, DSS was asked by another agency at a shelter providers meeting if a combined purchase required permission if over the amount in the cost report. All providers were told that any single item over the amount stated in the cost manual needed permission from the dept. but orders such as supplies in which no single item was above the allowed amount did not need permission. I verified with other providers that this is what we were advised by DSS and it is the standard practice of those agencies as well.

3. The above explanation is true of the camera repairs. Some of the cameras were broken and had to be replaced. Not one of the cameras cost over $750. Additionally going back to the previous audit, each camera was installed and billed at a separate time (when it was installed) and no camera was more than $750.

4. Dues and subscriptions ($980)- I did not get approval however, it was for membership to the Rotary Club and they donate over $1,000 each year to NANA's House, provide clothing, toys and food to our residents. They are instrumental in helping us to stay in the community with little to no resistance. Some of the members include the Superintendent of William Floyd SD (the biggest district we are in) and the Director of the Mastic/Shirley Library as well as Chamber of Commerce members and more. Additionally I spend $1,000 per year of my own money to belong to this association. Not to mention all the hours I spend on my own time working on projects in the community with the club so we can be accepted as a productive agency in the community.

The following are accounting errors made by Eric Rogers, CPA a professional we hired to provide accurate accounting services;

Rent for the BINGO hall should have come directly from the BINGO income. We have a separate category in QuickBooks so I have no idea why he would have charged this expense to the county.

Payroll expense; This most definitely should have been reported as office expense and not reported other expense.

Gas for agency vehicles should have never been reported as Utilities but should have been reported as Travel expenses.

APPENDIX A (Cont'd)

See Audit & Controls Comments (p. 21)

The reserve fund should have been used and not carried over. Each year we purchase furniture or equipment. We keep a list of purchases each year so the accountant can deduct the purchase from the reserve or depreciate the items when appropriate. All of our approved purchases should have been charged to this category.

Since our last audit, we have been working diligently to make sure that these accounting errors do no occur again in subsequent years. We have hired a new accounting firm to provide us with quarterly and year-end financial reports. We have also hired a monthly accountant to make sure all entries are correctly classified. In addition to the new accountants, we are in the process of updating the accounting software and categorizing all expenses to match the cost manual. It is my hope to work together and resolve these issues while moving forward with a much stronger system in place.

I would appreciate it if you would take another look at the disallowances and adjust them accordingly.

Sincerely Yours,

Wendy A. Falanga
Executive Director

APPENDIX B

Exit Conference Report

Auditee: Never Alone Never Afraid, Inc.

The unofficial draft audit report for the audit period January 1, 2013 through December 31, 2013 was mailed to the Agency on April 14, 2015 with a letter inviting the Agency to submit a formal written response no later than May 1, 2015. The letter did not offer the Agency the opportunity to attend an exit conference since the adjustments underlying the overpayment disclosed by our audit of the period January 1, 2013 through December 31, 2013 are the same as those cited in our limited scope audit of the period November 1, 2007 through December 31, 2012 (Report No. 2014-20), which were discussed at length with representatives of the Agency at an exit conference held on November 25, 2014.

On May 4, 2015 we received a formal response to the unofficial draft audit report from the Agency (Appendix A, pp. 18 – 20). Audit and Control's Assessment of the Auditee's response is as follows:

1. **Salaries/Wages**

   Bookkeeper and Head of Maintenance: The Agency contends that during the period of audit, the Agency operated pursuant to two separate DSS approved budgets, one which was approved by DSS in 2008 for the family shelters and one which was approved by DSS in 2013 for the singles shelters. Therefore, although the Bookkeeper and Head of Maintenance positions were not approved positions for the singles shelter, they were approved as full time positions for the family shelters. We strongly disagree that the aforementioned positions were only eliminated from the singles shelter. Our review of an October 28, 2013 e-mail correspondence between the Agency and DSS which purportedly supported the Agency's contention, disclosed that the Agency was attempting to convince DSS to reinstate these expenses for both the family and singles shelter. In the e-mail, the Agency asserted that it was impossible to open new shelters and to operate the three existing shelters without approval of these positions. In addition, in a second e-mail between the Agency and DSS dated October 20, 2014, the Agency once again requested that these positions be reinstated and acknowledged the positions were originally removed by DSS in 2013 due to a downsizing of the Agency. An inquiry made by our office to DSS concerning the positions in question confirmed that although the budget approved by DSS for the period of audit pertained to the singles shelter, the position approvals of the shared, non-direct care, staff submitted by DSS to the Agency related to both the family and singles shelters. As a result, we believe that the related audit disallowance is warranted.

APPENDIX B

Exit Conference Report

Program Director: The Agency contends that when the position of Program Director was reduced by DSS in the 2008 approved budget to a part time position, the individual who held the position began providing services as both a part time Program Director and a part time Housing Worker, and his two salaries were adjusted accordingly. During the period of audit, the individual in question was employed by the Agency as a full time Program Director; a position which was approved by DSS in the Agency's 2013 budget, but did not provide services under any other budget line. However, since this budget did not become effective until May 1, 2013, the 2008 DSS approved budget was in effect for four months during the period of audit. Accordingly, the 2008 approved budget was used to determine allowable wages for the first four months of the period of audit and the 2013 approved budget was used to determine the allowable wages for the remaining eight months. As a result, we believe that the related audit disallowance is warranted.

2. Uniforms

The Agency contends that, since it has such a high turnover of staff and residents, shirts were ordered to be used to identify staff members. The Agency also asserts that since none of the shirts individually exceeded the $750 threshold, the purchase did not require the prior written approval from DSS dictated by the Reimbursable Cost Manual (RCM).

The purchases in question were made by the Agency from a vendor specializing in the custom printing of t-shirts and other apparel. To determine the reasonableness of the purchase, we contacted the vendor and requested copies of the related invoices. We found that the related charges pertained to one large order placed on December 16, 2013 for 532 shirts. The order included various styles and prices which ranged from $5 to $42 for each shirt. The Agency equated this order to a sheet or cleaning supply purchase in which the total order would exceed $750. According to the Agency, nowhere in the reimbursement cost manual does it state that a combined purchase must be under $750.

We do not believe that this purchase is similar to a large order of incidental items needed for the operation of a homeless shelter. This order, when considered in aggregate, meets the criteria established by the RCM requiring DSS' prior written approval since it consists of one extremely large acquisition of 532 like items the cost of which substantially exceeds the $750 threshold.

We believe that the intent of the RCM's prior written approval requirement is to detect excessive and possibly abusive transactions before they occur. Since the Agency only employed approximately 40 to 50 employees at the time of the acquisition, we believe that the necessity of the order for the operation of a homeless shelter is questionable and therefore DSS should have had the

APPENDIX B

Exit Conference Report

opportunity to review this order for reasonableness and necessity prior to the order being placed. As a result, we believe that the related audit disallowance is warranted.

3. Security System

The Agency contends that, with respect to the original system, each camera was installed and billed at a separate time (when it was installed) with no individual camera costing more than $750. Therefore, since none of the cameras individually exceeded the $750 threshold, the purchase did not require the prior written approval from DSS dictated by the RCM. We believe that each individual camera merely represents a component of one master system, all acting in unison to accomplish one objective, the security of the facilities. As such, when considering the RCM's $750 threshold for requiring prior written approval from DSS, the Agency should consider the total cost of the system, not the cost of its individual components. Furthermore, since the total cost of $10,360 for this system exceeded $7,500, the RCM dictates that the Agency must obtain 3 competitive bids prior to the acquisition; however, no such bids were obtained. It should be noted that our review of the charges related to the security system disclosed that they were divided up into numerous, separate invoices, each being just under the $750 threshold. We contacted the vendor and inquired as to the reason the invoices were submitted to the Agency in this manner. The vendor indicated that he had never invoiced in this manner but did so at the request of the Agency. As a result, we believe that the related audit disallowance is warranted.

The Agency contends that some of the security system's cameras were broken and had to be replaced; however, since none of the cameras individually exceeded the $750 threshold, the purchase did not require the prior written approval from DSS dictated by the RCM. Our review of the related charges disclosed that, similar to the original security system (above), the related invoices were divided up into numerous, separate invoices, each being just under the $750 threshold. Furthermore, based on our review of the invoices we believe that that the related service was not merely the replacement of broken or defective cameras, but was an overhaul/upgrade of the security system. The components included 8 cameras, 3 monitors, numerous ceiling mounted microphones and 6,000 feet of cable. Similar to the original security system (above), we believe that each individual camera merely represents a component of one master system, all acting in unison to accomplish one objective, the security of the facilities. As such, when considering the RCM's $750 threshold for requiring prior written approval from DSS, the Agency should consider the total cost of the system not the cost of its individual components. In addition, since the total cost of $8,255 for this system exceeded $7,500, the RCM dictates that the Agency must obtain 3 competitive bids prior to the acquisition; however, no such bids were obtained. As a result, we believe that the related audit disallowance is warranted.

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4. Dues and Subscriptions

Although the Agency acknowledges that they did not obtain prior approval from DSS as directed by the RCM for their membership in the Rotary Club, the Agency contends that since this organization donates over $1,000 each year to NANA's House for the provision of clothing, toys and food for the clients, the related membership should be allowed. The Agency also asserts that the Rotary Club has been instrumental in assisting the Agency to remain in good standing within the community. We believe that the intent of the RCM's prior written approval requirement regarding the agency's membership in civic, business, technical, and professional organizations is to detect memberships that are not beneficial to the County Program, or whose cost is not commensurate with the value of the services or benefits received before they occur. If the only measurable benefit received from membership in the Rotary Club is the $1,000 annual donation, and if this donation hinges upon the Agency's membership in the Organization, we believe that the necessity of the membership for the efficient operation of a homeless shelter is questionable and therefore DSS should have had the opportunity to review this membership for reasonableness and necessity, prior to the cost being incurred. It should be noted that if the donation made to the Agency by the Rotary Club hinged upon its membership in the Organization, this expense should have been classified as an expense of fundraising which is not an allowable expense of the County Program. As a result, we believe that the related audit disallowance is warranted.