SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER
AUDIT DIVISION

John M. Kennedy, Jr.
Comptroller

A Limited Scope Desk Audit of
Penates, Inc.
Emergency Housing Services
For the Period
April 1, 2008 through March 31, 2013

Report No.: 2016-05
Date Issued: August 30, 2016

SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER

John M. Kennedy, Jr.
Comptroller

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LETTER OF TRANSMITTAL

September 3, 2015

Ms. Carolyn Signer, Executive Director
Penates Inc.
PO Box 5852
Bay Shore, NY 11706

Dear Ms. Signer:

In accordance with the authority vested in the County Comptroller by the Suffolk County Charter (Article V), a desk audit was conducted of the Emergency Housing Services Program (County Program) provided by Penates, Inc. (Agency), having its principal administrative office at 1360 5th Avenue, Bay Shore, New York. The Agency's contract (County Contract) to provide Emergency Housing Services was administered by the Suffolk County Department of Social Services (DSS).

Our desk 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 April 1, 2008 through March 31, 2013 period. The Homeless Shelter Provider Financial Statements are the responsibility of the Agency's management. The objective of the desk audit was 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 desk audit included an examination of the financial records submitted by the Agency to DSS pursuant to the County Contract, inquiries of DSS' personnel and any other procedures that we considered necessary under the circumstances. We believe that the documentation 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 April 1, 2008 through March 31, 2013 was prepared for the purpose of summarizing the audit adjustments disclosed by the desk 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 County of Suffolk DSS Reimbursable Cost Manual For Not-for-Profit Shelters (RCM).

As a result of our desk audit, for the period April 1, 2008 through March 31, 2013, it was determined that the Agency was overpaid by Suffolk County in the amount of $1,267,471 (Schedule 1, p. 10). 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 April 1, 2008 through March 31, 2013, at some future date.

Respectfully submitted,

Office of the County Comptroller
Division of Auditing Services

TS/SM

EXECUTIVE SUMMARY

As a result of our desk audit of the period April 1, 2008 through March 31, 2013, we determined that the Agency was overpaid $1,267,471 by Suffolk County (Schedule 1, p. 10). The overpayment resulted primarily from the following audit adjustments:

- The Agency reported $632,858 in excess funding for the audit period which must be returned to the County as dictated by the County Contract (p. 6).
- A $25,000 Capital Reserve Fund that was established during the period of audit with DSS' approval was not duly reported by the Agency as an offset to excess revenue as dictated by the RCM (p. 6).
- Suffolk County Per Diem Funding in the amount of $9,538 as well as Other Per Diem Revenue/Client Contributions in the amount of $39,813 that pertained to contracted services rendered during the period of audit was not duly reported by the Agency (p. 7).
- Salaries/Wages and the related Fringe Benefits were over-reported by $551,866 and $58,396 respectively due to employee salaries that exceeded the DSS approved budgeted amount for the position (p. 7).

BACKGROUND

Penates, Inc. (Agency), which was organized in New York State in 1992 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 1360 Fifth Avenue, Bay Shore, New York.

An examination was conducted of the County Program provided by the Agency for the period April 1, 2003 through March 31, 2004 (Report No. 2008-02). The examination identified material instances of noncompliance with regulations and contractual requirements and reportable internal control deficiencies which resulted in a $682,509 overpayment of funding that was returned by the Agency to the County.

The County Contract directed that if at the end of each contract year the Agency's allowable costs were less than the revenue received, such overpayment would be subject to recovery by the County. As a result, we reviewed the documentation submitted to DSS by the Agency supporting its Homeless Shelter Provider Financial Statements (HSPFS) for subsequent periods to ensure that similar overpayments did not exist.

However, since the Agency was contractually required to retain documentation supporting the HSPFS for a period of seven years, we were unable to perform a desk review for the period April 4, 2004 through March 31, 2008, and have therefore limited our review to the period April 1, 2008 through March 31, 2013.

SCOPE AND METHODOLOGY

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

- Examined the County Contract, the County of Suffolk Department of Social Services Reimbursable Cost Manual For Not-For-Profit Shelters (RCM) and applicable laws to determine the rules, regulations and other compliance requirements related to the audit objectives.

- Obtained from DSS approvals for purchases over $750 for the period of audit.

- Reconciled the revenue reported on the HSPFS to DSS records of revenue payments made to the Agency for services rendered during the audit period pursuant to the County Contract. Reconciled the client fee income reported by the Agency on the HSPFS to DSS records.

- Reconciled the expense classifications recorded in the Agency's general ledger to the expense classifications reported by the Agency on the HSPFS and the Certified Financial Statements.

- Reviewed the general ledger details and HSPFS for the period of audit for any unusual transactions or account classifications.

- Traced and agreed reported Salaries/Wages by job classification to the corresponding job classification's budgeted Salaries/Wages as approved by DSS.

AUDIT FINDINGS

Our desk audit disclosed that the Agency was overpaid $1,267,471 by Suffolk County for the period April 1, 2008 through March 31, 2013, as detailed below (Schedule 1, p. 10):

The Agency reported $632,858 in excess funding for the audit period which must be returned to the County as dictated by the County Contract. The excess funding was the result of Reported Program Revenue in the amount of $10,336,168 which exceeded Reported Expenses of $9,703,310 (Schedule 1, p. 10).

A $25,000 Capital Reserve Fund that was established during the period of audit with DSS' approval was not duly reported by the Agency as an offset to excess revenue as dictated by the RCM. Pursuant to the RCM, the Agency may establish a Capital 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; may only offset current year excess revenue over expenses; cannot increase an existing loss or generate a loss after reducing an overpayment, and; must either be used or returned to the County within a four-year expenditure period. The audit disclosed that although the Agency appropriately established a Capital Reserve Fund at the end of the April 1, 2012 through March 31, 2013 period, it did not duly report the Fund on the HSPFS. As a result, an audit adjustment was necessary to recognize the $25,000 Capital Reserve Fund as an offset to excess revenue (See p. 11, Notes to Schedule, note 2).

Suffolk County Per Diem Funding in the amount of $9,538 as well as Other Per Diem Revenue/Client Contributions in the amount of $39,813 that pertained to contracted services rendered during the period of audit was not duly reported by the Agency. Although the RCM directs that all revenues pertaining to the County Program must be reported and client fees established by DSS must be offset against the County Program's costs our audit disclosed the following:

- Suffolk County Per Diem Funding in the amount of $9,538 that pertained to the period of audit and was paid by DSS was not duly reported by the Agency. Accordingly an audit adjustment was necessary to recognize the related revenue (See p. 11, Notes to Schedule, note 3).

- The Agency did not report $39,813 of required homeless shelter client contributions. The Department determines if, and how much, clients are financially capable of contributing toward the cost of shelter; a required client contribution is then established. We found that the Agency did not report all of the required client contributions resulting in under reported revenue in the amount of $39,813. Accordingly an audit adjustment was necessary to recognize the related revenue (See p. 12, Notes to Schedule, note 4).

Salaries/Wages and the related Fringe Benefits were over-reported by $551,866 and $58,396 respectively due to employee salaries that exceeded the DSS approved budgeted amount for the position. 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. As a result, the related Salaries/Wages and Fringe Benefit expenses were disallowed (See p. 12, Notes to Schedule, note 5).

RECOMMENDATIONS

Recommendation 1

A responsible Agency employee should periodically review the Agency's payroll records and employee personnel files to ensure that the total wages of employees within the same job title do not exceed the associated budgeted amounts approved by DSS. The Agency administration should obtain the proper written Departmental approvals when wages are expected to exceed the approved budget.

Recommendation 2

To ensure that transactions are complete and accurate when recorded in the accounting records, the Agency must establish a system of documented second-party verification, which is performed by an Agency employee independent of the related processing functions.

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

Penates, Inc.
Statement of Revenue, Expenses and Net Audit Adjustment
For the Period April 1, 2008 through March 31, 2013

Notes	Description	April 1, 2008 through March 31, 2009	April 1, 2009 through March 31, 2010	April 1, 2010 through March 31, 2011	April 1, 2011 through March 31, 2012	April 1, 2012 through March 31, 2013	Combined Total
	Reported Program Revenues	$ 1,836,460	$ 2,074,621	$ 2,083,666	$ 2,208,459	$ 2,132,962	$ 10,336,168
	Less: Reported Expenses	1,758,039	1,800,459	2,045,322	2,084,649	2,014,841	9,703,310
(1)	Total Reported Over/(Under) Funding for Audit Period	78,421	274,162	38,344	123,810	118,121	632,858
	Adjustments:						
(2)	Capital Reserve Fund	-	-	-	-	(25,000)	(25,000)
(3)	Suffolk County Per Diem Funding	1,295	1,143	(1,091)	(2,658)	10,849	9,538
(4)	Other Per Diem Revenue/Client Contributions	4,076	8,604	6,358	13,685	7,090	39,813
(5)	Salaries/Wages	136,196	24,212	77,478	144,142	169,838	551,866
(5)	Fringe Benefits	12,730	2,555	7,975	15,290	19,846	58,396
	Total Amount Due Suffolk County	$ 232,718	$ 310,676	$ 129,064	$ 294,269	$ 300,744	$ 1,267,471

See Notes to Schedule (p. 11)

Notes to Schedule

Penates, Inc.

(1) The County Contract directs that if the Agency's costs are less than the amount received (County payments and client fees), the Agency must refund the overfunding to the County. We found that the Agency's Reported Program Revenues exceeded Reported Program Expenses by $632,858 for the period of audit. Therefore, as dictated by the County Contract, the Agency is obligated to refund this surplus to the County as follows:

April 1, 2008 through March 31, 2009	$ 78,421
April 1, 2009 through March 31, 2010	274,162
April 1, 2010 through March 31, 2011	38,344
April 1, 2011 through March 31, 2012	123,810
April 1, 2012 through March 31, 2013	118,121
Total	$ 632,858

(2) Pursuant to the RCM, the Agency may establish a Capital 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. The Fund may only offset current year excess revenue over expenses. 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 audit disclosed that although the Agency, with DSS' approval, established a $25,000 Capital Reserve Fund at the end of the April 1, 2012 through March 31, 2013 period the Agency did not duly report the contribution on the HSPFS. As a result, an audit adjustment was necessary to recognize the $25,000 Capital Reserve Fund contribution as an offset to excess revenue.

(3) 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 was housed. The per diem rate was established by DSS based on a proposed Agency budget and a review of the Agency's expenses. We found that the per diem payments made by DSS exceeded the per diem payments reported by the Agency for the period of audit by $9,538 as follows:

April 1, 2008 through March 31, 2009	$ 1,295
April 1, 2009 through March 31, 2010	1,143
April 1, 2010 through March 31, 2011	(1,091)
April 1, 2011 through March 31, 2012	(2,658)
April 1, 2012 through March 31, 2013	10,849
Total	$ 9,538

Notes to Schedule

Penates, Inc.

(4) 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. We found that the Agency did not report $39,813 of client contributions which, according to DSS, should have been collected during the period of audit as follows:

April 1, 2008 through March 31, 2009	$ 4,076
April 1, 2009 through March 31, 2010	8,604
April 1, 2010 through March 31, 2011	6,358
April 1, 2011 through March 31, 2012	13,685
April 1, 2012 through March 31, 2013	7,090
Total	$ 39,813

(5) During the term of this agreement, the County Contract directed that the Agency's staff positions and salaries shall remain identical to those positions and salaries contained within the Agency'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 $551,866 and related Fringe Benefit Expense in the amount of $58,396 are disallowed as follows:

	Fringe Benefit	Salaries/ Wages
April 1, 2008 through March 31, 2009	$ 12,730	$ 136,196
April 1, 2009 through March 31, 2010	2,555	24,212
April 1, 2010 through March 31, 2011	7,975	77,478
April 1, 2011 through March 31, 2012	15,290	144,142
April 1, 2012 through March 31, 2013	19,846	169,838
Totals:	$ 58,396	$ 551,866

APPENDICES

APPENDIX A
Agency's Response to Report

See Audit & Control's Comments (p. 19)

PENATES, INC.
1360 Fifth Avenue
P.O. Box 5852
Bay Shore, New York 11706
(631) 665-2986

March 10, 2016

Mr. Frank Bayer, CPA
Suffolk County – Office of the Comptroller
H. Lee Dennison Building
100 Veterans Memorial Hwy, PO Box 6100
Hauppauge, NY 11788

Dear Mr. Bayer,

The following is our response to your Desk Audit concerning Penates, Inc. for the period April 1, 2008 through March 31, 2013:

Surplus for the period April 1, 2008 to March 31, 2013:

1 The surplus of $632,858 for the period April 1, 2008 through March 31, 2013 has all been recouped directly by DSS. As a result of the field audit of Penates, Inc. for the fiscal year ended March 31, 2004 we agreed to pay back $682,500 to DSS over 6 years. Starting in November 2008 DSS starting deducting directly out of our monthly DSS reimbursements, amounts representing re-payment of the $682,500. During the first 9 months (November 2008 through July 2009) DSS subtracted $12,500 per month. For the remaining 62 months DSS subtracted $10,000 per month. The total of $682,500 has been completely recouped by DSS as of April 2014.

Amounts reported as Reimbursed from DSS:

2 The differences in the reimbursements reported by us on the Homeless Shelter Provider Financial Statements and the payments reported made by DSS is just a timing difference and should adjust itself in the subsequent period. Therefore for the year ended March 31, 2014 the difference should be in our favor in that the reported reimbursements reported on our HSPFS should be "over" the amount reported by DSS.

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Client Shelter Payments:

3 The difference in the clients' shelter payments reported is irrelevant as far as money owed back to DSS since the "client" payments are already deducted from the reimbursement paid to us. If there is a "client" shelter payment due – that amount is deducted right on the shelter reimbursement voucher and is never paid to us in the first place. If the "client" payment is not received then we suffer the loss of the payment – not DSS.

Salaries & Fringe Benefits

2008/2009 Fiscal Year:

4 A After reviewing the titles listed on the actual DSS report submitted - two people listed on the DSS schedule C (Family) had incorrect titles:

4 A On your comparison schedule Joan Houghkirk's salary needs to be changed to a different line. Her title was actually "Program Coordinator" and was listed in the budget as "Coordinator". Therefore her salary of $47,254 should be applied against the budgeted line of "Coordinator" of $48,250 and not grouped with the Prog. Coordinator/Shelter Workers/Coverage/House Manager group. The actual DSS report should not have included "Shelter Worker" as part of her title.

4 A Elizabeth Tracy is included as a "Shelter Worker". Her title/position was actually "Case Manager" and was listed on the approved budget as such. Therefore her salary of $31,481 should be applied against the budgeted line of $21,015. See the attached "as amended" schedule C (Family) actual DSS report.

4 B After reviewing your comparison schedule for the "Singles" shelters - we do not agree with the method used to calculate the over budgeted amount calculated for the Singles "Shelter Workers/Coverage of $34,005. The maximum amount of over budget should be limited to the difference between the actual (not prorated) amount calculated into the budget of $384,947 and the actual amount expended of $365,791. This difference is $19,156 and we believe that should be the amount considered, not the $34,005.

4 C After applying the above changes the total over budgeted amounts would be reduced to $118,482 and the under budgeted amounts would be $34,729. Please also note that the approved budget for total salaries for the 2008/2009 year was $1,174,527 – the actual salaries expended was $1,175,069. The difference between total actual salaries and budgeted was only $542.

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Also, the amount (per the applicable percentage) for fringe benefits disallowed would be reduced to $11,058.

2009/2010 Fiscal Year:

4 A On your comparison schedule Elizabeth Tracy is included as a "Shelter Worker". Her title was actually "Case Manager" and was listed on the approved budget as such. Therefore her salary of $36,614 should be applied against the budgeted amount of $34,000 for "Case Manager". See the attached "revised" schedule C actual (Family) DSS report as previously submitted.

4 A On your comparison schedule Michele Beecher is included as a "Shelter Worker". Her title was actually "Education Coordinator/ Liaison" and was listed on the approved budget as such. Therefore her salary of $25,969 should be applied against the budgeted amount of $28,600 for "Education Coordinator". See the attached "revised" schedule C actual (Family) DSS report as previously submitted.

4 A On your comparison schedule Brittany Battista is included as a "Shelter Worker". Her title was actually "Social Worker" and was listed on the approved budget as such. Therefore her salary of $36,406 should be applied against the budgeted line of $45,000 for "Social Worker". See the attached "revised" schedule C actual (Singles) DSS report as previously submitted.

4 A On your comparison schedule Stephen Langdon is included as a "Shelter Worker". His title was actually "Cook" and was listed on the approved budget as such. Therefore his salary of $3,731 should be applied against the budgeted line of $19,000 for "Cook". See the attached "revised" schedule C actual (Singles) DSS report as previously submitted.

4 C After applying the above changes the total over budgeted amounts would be reduced to $11,438 and the under budgeted amounts would be $108,691. Please also note that the approved budget for total salaries for the 2009/2010 year was $1,291,406 – the actual salaries expended was $1,182,037. In total there was a $109,369 salary under expenditure.

Also, the amount (per the applicable percentage) for fringe benefits disallowed would be reduced to $1,207.

2010/2011 Fiscal Year:

4 A On your comparison schedule Meghan Tracy is included as "Shelter Worker". Her title was actually "Case Manager" as is listed on both the approved DSS budget and on the "corrected" DSS actual (Singles) Schedule C reports you included in your packet to us. Therefore her salary of $34,087 should be applied against the budgeted line of $34,000 for "Case Manager"

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4 A On your comparison schedule Stephen Langdon is included as a "Shelter Worker". His title was actually "Cook" as is listed on both the approved DSS budget and on the "corrected" DSS actual (Singles) Schedule C reports you included in your packet to us.

After applying the above changes the over budgeted amounts would be reduced to $77,317 and the under budgeted amounts would be $11,067.

Also, the amount (per the applicable percentage) for the fringe benefits would be reduced to $8,022.

2011/2012 Fiscal Year:

4 D On your comparison schedule you list the "Education Coordinator/Liaison" as budgeted for 2,080 hours. This is not correct as it is clear from the approved budget that the position of "Education Coordinator/Liaison was budgeted at only 1300 hours (part time 25 hours for 52 weeks). Therefore the prorated budgeted salary for that position is not appropriate and as a result the over budgeted amount for that position is only $136.00 ($30,183 less $30,047).

After applying the above change the over budgeted amounts would be reduced to $144,142.

Also, the amount (per the applicable percentage) for the fringe benefits would be reduced to $15,295

2012/2013 Fiscal Year:

4 D As stated for the 2011/2012 fiscal year your comparison schedule lists the "Education Coordinator/Liaison as budgeted for 2080 hours. As explained above the approved budget was for 1300 hours and therefore the prorated amount is not appropriate and as a result the over budgeted amount for that position is only $83.00 ($30,130 less $30,047).

5 The comparison schedule you prepared is based upon the prior year's budget of the 2011/2012 fiscal year. The business manager we employed when the 2012/2013 budget was prepared and submitted to DSS (see the attached budget submitted for both Family & Singles Shelters) communicated to me that the submitted budget attached was approved by Stacey Quinn. After the business manager left the agency at the end of 2015, we discovered that she was using her personal e-mail account to communicate with DSS during the time this budget was prepared and therefore we do not have access to the correspondence between her and DSS. Since I was under the understanding that the attached budget was approved we accordingly paid our employees according to the 2012/2013 budget we submitted.

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See Audit & Control's Comments (p. 19)

Attached is an excel spreadsheet that computes the over/under budgeted amounts according to the submitted budget. The comparison using the submitted budget shows over budgeted positions amounted to only $65, 243.

Also, the amount (per the applicable percentage) for the fringe benefits would be reduced to $ 7,625.

6 Please also note that for the year ended March 31, 2013, we established a Capital Reserve Fund in the amount of $25,000 with DSS (see attached emails.) The fund was used for start-up expenses incurred by us for 2 new transitional shelters we opened. The first amount of $ 11,079 was used for the 1400 N. Clinton transitional shelter in November 2013 and the remainder of $13,921 was used for 76 Doolittle transitional shelter started in February 2014.

In Summary:

7 Please be aware that for the periods listed above the over budgeted amounts for staff needed to be expended in order for Penates, Inc. to remain in compliance with SCDSS contracts regarding required staffing/coverage levels. It was necessary to frequently pay workers overtime not originally anticipated. This was necessary to keep required coverage during storms such as Hurricane Irene, Super Storm Sandy, and numerous blizzards that required staff to remain at the shelters for extended periods of time (2-3 days).

We look forward to your response and in working with you in reaching a workable solution.

Sincerely,

Carolyn Signer as Executive Director

Carolyn Signer as Executive Director
Penates, Inc.

APPENDIX B

Exit Conference Report

Auditee: Penates, Inc.

The draft audit report was mailed to the Agency on January 13, 2016 with a letter inviting the Agency to submit a formal written response and/or request an exit conference within 30 days of receipt of the report.

Pursuant to an inquiry that was made by the Agency to our office concerning the audit findings all pertinent audit documentation supporting the draft audit report was provided to the Agency on January 22, 2016.

On February 3, 2016, we received a letter from the Agency requesting an additional 60 days in which to submit a written response to the audit. The Agency contended that in order to fully review the report findings it was imperative that certain documents be retrieved from DSS. A reduced extension was approved by our office extending the deadline for the entire process to be completed to March 18, 2016.

On March 18, 2016, we received the Agency's formal written response to the draft audit report (Appendix A, pp. 14 – 18). The Agency declined our invitation to attend an exit conference to discuss points of contention cited in their response to our audit. However, we met with representatives of the Agency on several occasions to obtain further clarification and to review additional supporting documentation related to the contentions cited in the response.

The Agency's primary contention was that certain employee's job titles were misclassified on the Homeless Shelter Provider Financial Statements (HSPFS) and, as a result, numerous positions exceeded the approved budgeted amount. Pursuant to our review of the associated employee personnel files, we corrected the Agency's claiming errors by reclassifying certain employees to their proper job title, thus reducing the audit disallowances related to reported salaries over budget. This, as well as other contentions cited in the Agency's formal written response will be addressed in detail in Audit and Control's Assessment of Penates, Inc.'s Response to the Report, which is as follows:

APPENDIX B (Cont'd)

Audit and Control's Assessment of Penates, Inc.'s Response to the Audit

1. Surplus for the period April 1, 2008 to March 31, 2013

The Agency contends that the surplus of $632,858 for the period April 1, 2008 through March 31, 2013 has all been recouped directly by DSS through monthly withholdings from the Agency's billings. It is important to note that these withholdings were made by DSS in an effort to satisfy an overpayment of $682,500 that was disclosed by our audit of the fiscal year ended March 31, 2004, and therefore were unrelated to the excess funding disclosed by our audit of the period April 1, 2008 through March 31, 2013. Although the Agency may have attempted to subsidize the monthly withholdings with the excess funding disclosed by this audit, since the Agency is contractually required to return excess funding to the County, these funds may not be used for any other purpose. Consequently, we believe that our audit adjustment is warranted.

2. Amounts reported as reimbursed from DSS

The Agency contends that the differences between Suffolk County Per Diem Revenue reported on the Homeless Shelter Provider Financial Statements (HSPFS) and the actual payments made by the County for services provided during the period of audit are the result of timing differences that will self-adjust in the subsequent period. The RCM dictates that accounting records must be maintained on an accrual basis of accounting. We believe that had the Agency reported Suffolk County Per Diem Revenue based on the accrual method of accounting it would have agreed to the amount disclosed by our analysis of the County's payment records which was prepared on the accrual basis. In the absence of a detailed analysis of the Agency's revenue records it is virtually impossible to determine whether the variations are the result of timing differences, unreported revenue or accounting errors. As a result, since the County's payment records reflect what was actually paid to the Agency for services provided during the period of audit we believe that our audit adjustment is warranted.

3. Client Shelter Payments

The Agency contends that the difference in client shelter payments is irrelevant as far as money owed back to the County since these payments are already deducted from the reimbursement paid to the Agency. We believe that the determination of the client fees, their collection and their proper reporting are very relevant to the determination of the overpayment as well as to the purpose and goals of the Homeless Shelter Program. These fees are assessed and collected from clients who are financially capable of contributing toward the cost of shelter. Their purpose is to ease the burden of the County and, at the same time, teach the clients to begin taking responsibility for themselves. It is the Agency's contractual responsibility to collect these fees as an offset to the client's costs and to notify the County immediately if the client refuses to pay them, as they could face removal from the program. In a situation whereby the Agency's costs are greater than the

APPENDIX B (Cont'd)

Audit and Control's Assessment of Penates, Inc.'s Response to the Audit

amount received from the County these fees serve to subsidize the difference. However, when the Suffolk County Funding exceeds the reported expenses, these fees must be returned to the County along with the excess funding to serve as an offset to program funding. As such, client fees are not the property of the Agency and therefore it is not up to the Agency whether or not to duly collect them. In addition, it is important to note that in the absence of a full scope audit, it is virtually impossible to determine whether the Agency did not duly collect the client fees or collected the fees but did not report them. Consequently, we believe that our audit adjustment is warranted.

4. Salaries & Fringe Benefits

A. Incorrect employee job titles: The Agency contends that the wages paid for certain job titles exceeded the approved budgeted amount because the audit incorrectly classified the job titles of certain employees. Although the related audit disallowance was determined utilizing the employee job titles that were reported by the Agency on its HSPFS, through our subsequent review of the related employees' personnel files, which were provided by the Agency in support of its contention, we confirmed that the Agency did insert incorrect job titles on the HSPFS for the employees in question. Consequently, we revised the Salaries/Wages and the related Fringe Benefit audit disallowances accordingly for the fiscal years ending March 31, 2009, 2010 and 2011.

B. Proration of Budgeted Shelter Worker/Coverage Salaries/Wages: The Agency expressed disagreement with the audit methodology used to determine the over-budget amount for the Singles Shelter, Shelter Worker/Coverage job classification. Although the Agency contends that the audit should not have prorated the budget amount to reflect the reduced number of hours actually worked by the employees included within this job classification, it did not provide any written documentation or acceptable rationale to substantiate its contention. Furthermore, since the budget is determined based on an approved hourly wage for each position included within a given job classification, it is necessary to prorate the budget in those instances when the reported actual hours worked are materially less than the budgeted hours. Consequently, we believe that our proration of the budgeted Shelter Worker/Coverage amount, which was performed for both the Family and Singles Shelters for all fiscal periods audited, is warranted. However, our determination of the budgeted hours associated with employee coverage was revised to reflect time and one-half rather than straight time since it is plausible that the additional coverage was provided during overtime hours. Therefore, Salaries/Wages and the related Fringe Benefit audit disallowance for both the Singles and Family Shelters were reduced accordingly for each effected fiscal year.

APPENDIX B (Cont'd)

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C. Total budgeted vs. reported Salaries/Wages: The Agency questions the appropriateness of disallowing actual wages paid that exceeded the corresponding budgeted amount by job classification in instances whereby reported Salaries/Wages are, in aggregate, materially close to or less than the overall budgeted Salaries/Wages. The Agency contends that total Salaries/Wages reported on the HSPFS for the period April 1, 2008 through March 31, 2009, exceeded the total budgeted Salaries/Wages by only $542 and were actually $109,369 less than budgeted Salaries/Wages for the period April 1, 2009 through March 31, 2010. However, since the Agency is contractually required to maintain staff positions and salaries identical to those positions and salaries contained within the budget as approved by the DSS, the Agency is limited to the line item budgeted amount for each job title. Consequently, we believe that our audit adjustments are warranted.

D. Incorrect employee budgeted hours: The Agency contends that the wages paid for the Education Coordinator/Liaison exceeded the approved budgeted amount because the audit incorrectly prorated the associated budgeted wages. The Agency further asserts that since the individual that held this position was paid for the same number of part-time weekly hours for which the position was budgeted, no proration is necessary. The audit prorated this job title's budgeted amount based on the part-time hours actually worked by the associated employee as a percentage of the full-time number of weekly hours included in the Agency's proposed and approved budgets. However, our subsequent review of pertinent documentation disclosed that, although the budgeted wages for this job title reflected part-time employment, the Agency incorrectly inserted full-time weekly hours for this job title. As a result, since the Agency was correct in that no proration is necessary for this budgeted position, we revised the Salaries/Wages and the related Fringe Benefit audit disallowance accordingly for the fiscal years ending March 31, 2012 and 2013.

5. Budget Approval

The Agency expressed disagreement with our disallowance of Salaries/Wages that were reported for the period April 1, 2012 through March 31, 2013, which exceeded the Agency's approved April 1, 2011 through March 31, 2012 budget. The Agency contends that a budget was duly submitted to DSS via e-mail by its former business manager and a verbal approval of the budget was issued by DSS. Since the former business manager utilized a personal e-mail account to communicate with DSS, the Agency purportedly no longer has access to the related correspondence. However, the Agency asserts that since it operated under the surmise that the budget was approved, its employees were paid accordingly and therefore, it should not be held to the limitations of the April 1, 2011 through March 31, 2012 period's approved budget.

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An inquiry made by our office to DSS concerning the Agency's budget submissions revealed that the Agency's proposed budget for the fiscal year ending March 31, 2013, was not approved by DSS either verbally or in writing. Furthermore, we believe that the Agency should have been aware that this budget was never approved since, as confirmed to our office by DSS, there was no corresponding budget-related change to the Agency's established per diem rate for the fiscal period in question. As a result, in accordance with DSS policy, the Agency should have operated within the constraints of the fiscal year ending March 31, 2012's approved budget. Therefore, due to the lack of any written documentation to substantiate the contrary, we believe that the related audit disallowance is warranted.

6. Capital Reserve Fund

The Agency contends that, with DSS' approval, it established a $25,000 Capital Reserve Fund at the end of the April 1, 2012 through March 31, 2013 period of audit. The Agency also asserts that this fund was approved by DSS to be used for subsequent period purchases. Although the Agency did not report the contribution to the Capital Reserve Fund on the HSPFS, an e-mail from DSS, which was provided by the Agency to substantiate its contention, did reflect a conditional approval of the establishment of the fund as well as approval for the use of a portion of the fund in the subsequent fiscal year. In addition, DSS' response to an inquiry made by our office concerning this matter as well as additional correspondence provided by DSS further confirmed the Agency's contention. However, since the Agency did not duly record the contribution to the fund on the HSPFS, an audit adjustment was necessary to revise the report accordingly.

7. Staffing Levels

We disagree with the Agency's contention that the over-budgeted Salaries/Wages were incurred in order to remain in compliance with DSS staffing levels and coverage requirements and therefore should not have been disallowed by the audit. Although DSS reviews, adjusts when necessary and approves each budget submitted by the Agency, we believe that it is ultimately the Agency's responsibility to ensure that its proposed budget maintains proper staffing levels and that requested compensation for each job title is reasonable when compared to similar job titles within the industry. If, due to changes within the industry or other unforeseen circumstances, an unusual increase in staffing is necessary to operate efficiently as directed by DSS' policy, it is the Agency's responsibility to submit a budget modification to DSS for approval.

We also disagree with the Agency that it was frequently required to pay workers unanticipated overtime since the staff had to remain at the shelters during inclement weather conditions. Since the Agency's proposed and approved payroll budgets typically include a line item denoted "Coverage," which is intended to provide for necessary

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coverage during unforeseen conditions, costs of this nature should be amply provided for in the budget. The Agency did not provide us with any written documentation to substantiate this contention, therefore, to further ensure that the wages paid in excess of the budgeted amount were not the result of excessive overtime payments caused by inclement weather conditions, we analyzed the Agency's overtime payments for the October 29, 2012 through March 31, 2013 (which included Superstorm Sandy). Based on our review, we determined that the overtime payments made during this period totaled $2,117 which was substantially less than the annual allotment in the budget for "Coverage," which totaled $31,300. Consequently, we believe that Salaries/Wages over the budgeted amount was the direct result of individual employee wages being paid at a base rate in excess of the allotted amount reflected in the budget for the related job titles which is not permitted by the County Contract. Therefore, we believe that our audit adjustments are warranted.