SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER
AUDIT DIVISION

John M. Kennedy, Jr.
Comptroller

A Limited Scope Report of
Project ReDirect, Inc.
Emergency Housing Services
For the Period
July 1, 2009 through June 30, 2010

Report No.: 2017-05
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SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER

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LETTER OF TRANSMITTAL

December 11, 2015

Victor Seltzer, Ph.D.
Executive Director
Project ReDirect, Inc.
133 Main Street
Babylon, New York 11702

Dear Dr. Seltzer:

In accordance with the authority vested in the County Comptroller by the Suffolk County Charter (Article V), a limited scope audit was conducted of the Emergency Housing Services Program (County Program) provided by Project ReDirect, Inc. (Agency) having its principal administrative office at 133 Main Street, Babylon, New York 11702. The Agency was contracted by the Suffolk County Department of Social Services (DSS) to provide Emergency Housing Services at various locations within Suffolk County.

The limited scope audit was initiated as the result of a performance audit which we conducted of the County Program provided by the Agency for the period July 1, 2008 through June 30, 2009 (Report No. 2015-12). The audit identified material instances of noncompliance with regulations and contractual requirements as well as reportable internal control deficiencies which resulted in material expense adjustments, some of which were detected when we performed audit procedures on the subsequent period's account balances. It was therefore, determined that a limited scope audit should be performed for the period July 1, 2009 through June 30, 2012.

This limited scope audit focused upon the expense and revenue account balances reported on the Agency's Homeless Shelter Provider Financial Statements for the July 1, 2009 through June 30, 2010 period that we found were materially misstated during our audit of the prior period. Our audit of the period July 1, 2010 through June 30, 2012 will be the subject of a separate audit report that will be released at a later date. The objectives of our limited scope audit were as follows:

- To ensure that the selected expense account balances contained necessary and legitimate obligations of the Agency that were incurred and paid solely on behalf of the County Program pursuant to the contract and all applicable laws and regulations, and not for the benefit of organizations or persons affiliated with the Agency, the Agency's management or their families.

- To determine if the revenues reported by the Agency represent all payments

made by the County for legitimate services provided by the Agency pursuant to the contract; and that they include 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 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 any other investigative procedures that we considered necessary under the circumstances. The limited scope audit also included our assessment of the 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 Reported and Adjusted Revenue, Expenses and Net Audit Adjustment and the related Statements (collectively referred to as the Statements) for the period July 1, 2009 through June 30, 2010, were prepared for the purpose of summarizing the audit adjustments disclosed by our limited scope audit with respect to those transactions 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 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 July 1, 2009 through June 30, 2010, it was determined that the Agency's allowable program revenues exceeded the allowable program expenses by $439,238 (Schedule 1, p. 22).

Respectfully,

Frank Bayer, CPA
Executive Director of
Auditing Services

EXECUTIVE SUMMARY

As a result of our limited scope audit of the period July 1, 2009 through June 30, 2010, we determined that the Agency was overpaid $439,238 (Schedule 1, p. 22) by Suffolk County. The overpayment resulted primarily from the following:

- The Agency reported $18,328 in excess funding for the audit period which must be returned to the County, as dictated by the Agency's contract with the County (p. 7).

- Unreported revenue in the amount of $5,484 was recognized because it pertained to per diem funding that was received from the County but was not duly reported by the Agency (p. 7).

- Client contributions in the amount of $15,279 were recognized because, according to DSS, they should have been collected during the period of audit and serve to offset the related client expenses (p. 8).

- Salaries/Wages, Fringe Benefits and other expenses are over-reported by $140,378 due to costs that are prohibited by the DSS Reimbursable Cost Manual for Not-for-Profit Shelters (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; personnel for which the Agency did not duly seek DSS screening and approval, or; an employee who did not possess the required education, knowledge or experience for the particular duties performed. We also disallowed cash payouts for unused vacation accruals; health insurance costs related to employees who did not provide services to the County Program; uncollected employee contributions to health insurance, and; excessive interest charges. (p. 8).

- Security, Repairs and Maintenance, and Rent – Building expenses are over-reported by $153,089 due to less-than-arm's length or inappropriate transactions that we determined were contrary to, or in conflict with, the goals and purposes of the County contract (p. 11).

- The Agency inappropriately reported $39,006 of merchandise and vehicle acquisitions which were consummated without the prior approval of DSS, as dictated by the RCM (p. 14).

- Salaries/Wages and other expenses are over-reported by $64,950 due to costs that were not supported by sufficient documentation (p. 16).

- Food expenses are over-reported by $2,724 due to 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. 17).

BACKGROUND

Project ReDirect, Inc. (Agency), a community based, not-for-profit emergency housing agency which was founded in 1996, 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 133 Main Street, Babylon, New York.

A performance audit was conducted of the County Program provided by the Agency, for the period July 1, 2008 through June 30, 2009 (Report No. 2015-12). The audit identified material instances of noncompliance with regulations and contractual requirements and reportable internal control deficiencies, which resulted in material expense adjustments, some of which were detected when we performed audit procedures on the subsequent period's account balances. It was therefore determined that a limited scope audit should be performed for the period July 1, 2009 through June 30, 2012, to ensure that similar conditions or additional unusual transactions or account classifications did not exist during the subsequent periods.

This limited scope audit focused upon those expense and revenue account balances reported on the Agency's Homeless Shelter Provider Financial Statements for the July 1, 2009 through June 30, 2010, and will include 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 any other audit procedures that we consider necessary under the circumstances. Our limited scope audit procedures for the period July 1, 2010 through June 30, 2012, will be the subject of a separate audit report that will be released at a later date.

SCOPE AND METHODOLOGY

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

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

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

- Prepared a schedule of payroll expense for all employees claimed to the County on the Homeless Shelter Provider Financial Statements. Compared the amount claimed per employee to amounts paid per Agency Payroll Registers for reasonableness. Verified that amounts claimed did not exceed approved budgeted amounts by job classification.

- Performed a background check for each of the employees claimed to the County on the Homeless Shelter Provider Financial Statements utilizing a public records internet search engine (Clear). When necessary, verified with DSS that the Agency's personnel were duly reviewed and cleared for employment by the County's Personnel Screening Review Committee.

- Scanned the Agency's General Ledger Details and Homeless Shelter Provider Financial Statements and selected for testing purposes those unusual transactions and account classifications that we found were materially misstated during our audit of the prior period. We reviewed supporting documentation such as vendor receipts, vendor invoices, vendor statements, vendor agreements, lease agreements, employee time sheets, payroll records, employee personnel files, cancelled checks and bank statements to ensure that the selected items were actually incurred on behalf of the County Program and were in compliance with applicable laws, contracts and regulations.

AUDIT RESULTS

Our limited scope audit revealed that the Agency was overpaid $439,238 by Suffolk County for the period July 1, 2009 through June 30, 2010 (Schedule 1, p. 22). The results of our investigation are as follows:

The Agency reported $18,328 in excess funding for the audit period which must be returned to the County as dictated by the Agency's contract with the County. We analyzed the Agency's Homeless Shelter Provider Financial Statements (HSPFS) and found that the Agency reported program revenue in the amount of $3,372,268. However, this amount exceeded reported expenses of $3,353,940 by $18,328 (Schedule 1, p. 22). As dictated by the Agency's Contract with the County, the Agency is obligated to refund this surplus to the County.

Unreported revenue in the amount of $5,484 was recognized because it pertained to per diem funding that was received from the County, but was not duly reported by the Agency. We traced each payment made by the County to the Agency to the Benefit Issuance Control Subsystem (BICS) of the State Welfare Management System (County's payment records) and a determination was made as to which payments pertained to services that were provided during the period of audit. However, when totaled, we found that the actual payments in the amount of $3,334,947 exceeded the amount reported by the Agency on the HSPFS of $3,329,463 by $5,484. Therefore, an adjustment was necessary to recognize $5,484 of unreported per-diem revenue (See p. 24, Notes to Schedules, note 1).

Client contributions in the amount of $15,279 were recognized because, according to DSS, they should have been collected during the period of audit and serve to offset the related client expenses. 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. However, we found that the Agency did not report the full amount of client contributions required by DSS resulting in underreported revenue in the amount of $15,279 (See p. 24, Notes to Schedules, note 2).

Salaries/Wages, Fringe Benefits and other expenses are over-reported by $140,378 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:

- Salaries/Wages are over-reported by $67,313 due to non-compliance with applicable laws and regulations. Chapter 438 of the Laws of Suffolk County, New York dictates that the background of all prospective employees who will come in direct unsupervised contact with the clients must be reviewed and cleared by the County's Personnel Screening Review Committee. However, interview and inquiry with DSS disclosed that certain employees were never reported by the Agency to the committee for review and approval. Furthermore we performed a background check for each of these employees, utilizing a public records internet search engine (Clear) and found that one of these employees was a level-two registered sex offender. As a result, Salaries/Wages in the amount of $67,313 are disallowed (See p. 24, Notes to Schedules, note 4).

- Salaries/Wages are over-reported by $23,269 because the Agency did not comply with the contractual obligation to ensure that its controller possessed the required education, knowledge, experience and character necessary to qualify him individually for the particular duties he performed. In addition, the contract further directs that vacant positions must be filled with the best qualified person(s) as the result of a competitive interviewing/screening process, and that position appointments are not based on or influenced by favoritism shown to family members or friends of the Contractor's directors, officers or other principals. We reviewed the controller's resume and other documentation included within his personnel file and determined that this individual's previous employment was primarily that of a graphic designer, the duties of which did not meet the job title specifications which were included within the County Contract for controller. Furthermore we performed a background check for this individual utilizing Clear and found that this employee did not reside in New York State during the period of audit and, in fact, served as the president of EPMJ Marketing Strategies, Inc., an active business corporation located in Baker, LA. We reviewed the individual's Federal Form W-2 Wage and Tax Statement and found that the listed mailing address was that of a property that was under the jurisdiction of the Islip Housing Authority. We confirmed with the Director of the Islip Housing Authority that this individual never resided at this location. As a result, Salaries/Wages in the amount of $23,269 are disallowed (See p. 24, Notes to Schedules, note 4).

- Salaries/Wages are over-reported by $3,838 because the Agency did not comply with the County Contract. Our review of the County Contract disclosed that the Agency is contractually required to maintain staff positions and salaries identical to those indicated in the Agency's budget as approved by DSS. We therefore compared each job classification's total wages reported on the Agency's HSPFS to the associated job classification total reflected on the DSS approved budget and found that reported salaries exceeded the approved budgeted amount for certain job classifications. As a result, $3,838 of reported Salaries/Wages Expense is disallowed (See p. 24, Notes to Schedules, note 4).

- Our review of the Agency's payroll records revealed that the Agency reported as salaries/wages on the HSPFS, $7,408 of payments which purportedly pertained to certain employees' unused vacation accruals. However, since the RCM dictates that payments such as these are not allowable until the employee's year of termination, an audit adjustment is necessary to disallow these payments (See p. 24, Notes to Schedules, note 4).

- Our analysis of the various fringe benefits provided by the Agency to its employees revealed that some of the fringe benefits are determined utilizing the employees' wages. We therefore determined the proportionate share of fringe benefit expenses that are associated with Salaries/Wages disallowed by

the audit. Accordingly, $18,405 of reported fringe benefit expenses are disallowed (See p. 25, Notes to Schedules, note 5).

- We traced each individual billed on the medical insurance carrier's monthly invoice to each employee reported on the Agency's HSPFS as receiving wages during the period of audit. Through a review of the Agency's payroll and personnel records, we determined each reported employee's date of hire and termination and compared them to the date of enrollment and termination of benefits determined utilizing the vendor's monthly invoices. Our analysis disclosed that the Agency improperly reported as a fringe benefit expense, medical insurance premiums in the amount of $9,914 that were billed and paid for individuals who were not employed by the Agency for all or a portion of the months for which insurance premiums were charged to the County program. As a result, $9,914 of reported Fringe Benefit expense is disallowed (See p. 25, Notes to Schedules, note 5).

- Interview and inquiry with DSS personnel disclosed that employees who elect to participate in the employer sponsored health and dental insurance program must contribute toward the cost of insurance coverage through bi-weekly, payroll deduction amounts determined by the Agency. We therefore reviewed the Agency's policies and procedures to determine the required employee contribution to the plan. We also reviewed the Agency's bi-weekly payroll records as well as the personnel files to verify that each employee authorized and was duly making the required contribution to the plan. Our analysis revealed that the Agency did not initiate payroll deductions for all employees who were receiving health and dental benefit coverage. Furthermore, we found that certain employees were receiving enhanced health coverage but were either not contributing to the plan at all or were only contributing the amount required for the basic coverage. It should be noted the RCM dictates that salary benefits for individual employees must not be significantly disproportionate to payments made to other classes or groups of employees. Consequently, $7,190 of Agency-reported Fringe Benefit expense is disallowed (See p. 25, Notes to Schedules, note 5).

- We reviewed original source documentation such as corporate credit card statements, vendor invoices, vendor receipts, vendor agreements, cancelled checks, bank statements, etc., and found that $3,041 of judgmentally selected transactions that were reported by the Agency on the HSPFS, are prohibited by the RCM. Our limited scope audit revealed the following disallowed expenses:

  - Although the RCM directs that costs resulting from violations of or failure by the Agency to comply with federal, state and/or local laws and regulations are not allowable, the Agency reported $137 of interest expense that was incurred due to late payment of New York State Unemployment Insurance (See p. 25, Notes to Schedules, note 5).

- The Agency inappropriately reported $24 of newspaper subscriptions even though the RCM specifically prohibits the cost of subscriptions to general publications such as NY Times, etc. (See p. 25, Notes to Schedules, note 10).

- Although the RCM dictates that interest charges from any source other than bank loans from a licensed financial institution for the purchase of real property, fixed assets or vehicles necessary for the operation of the shelter, is limited to the Internal Revenue Service (IRS) imputed interest rate, the Agency inappropriately reported credit card interest expense that exceeded the IRS imputed interest rate by $834 (See p. 25, Notes to Schedules, note 8).

- The Agency inappropriately reported $1,729 of Travel expenses related to an employee's commutation between home and work as well $317 of Other expense relating to sales tax, both of which are prohibited by the RCM (See p. 26 and 27, Notes to Schedules, notes 16 and 17).

Security, Repairs and Maintenance, and Rent – Building expenses are over-reported by $153,089 due to less-than-arm's length or inappropriate transactions that we determined were contrary to, or in conflict with, the goals and purposes of the County Contract. The RCM directs that Consultant costs are allowable provided that officers or employees of the Agency are not engaged by the Agency as consultants. 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 and that the contractor is charged with the duty to disclose to the County, the existence of any such adverse interests, whether existing or potential. Our limited scope audit revealed the following violations of the RCM and the County Contract:

- The Agency inappropriately charged the County $101,053 of security expenses that pertained to services provided by an independent consultant who was also an employee of the Agency, which is prohibited by the RCM. We traced and agreed the Security Expense account balance reported on the HSPFS to the Agency's associated general ledger account detail and the supporting payroll records and found that, similar to the prior period's audit,

all payments were made to EM3 Consulting. We reviewed the Agency's Federal Form 990 information return, which reported that EM3 was the only independent contractor that received in excess of $100,000 for the period of audit. We analyzed incorporation records of the New York State Department of State Division of Corporations' and verified that this entity was an active domestic business corporation that was organized in 2005. However, when we compared the corporation's principals reflected in the State's records to the Agency's listing of employees reported on the HSPFS, we found that this corporation was owned and operated by an individual that was employed by the Agency as a Housing Specialist, which is prohibited by the RCM. In addition, our review of the related consulting agreement disclosed that the Agency's Housing Specialist executed the consulting agreement on behalf of EM3 Consulting, Inc., for the provision of security consulting services to the Agency. As a result, an audit adjustment was necessary to disallow $101,053 of reported Security expenses (See p. 26, Notes to Schedules, note 14).

- Repairs and Maintenance expense is over-reported by $15,420. During the course of the audit we performed a background check for each of the Agency's employees utilizing a public records internet search engine (Clear) and learned that one of the employees was listed as the owner/operator of QVR Home Improvement. We subsequently scanned the general ledger account detail reported by the Agency on the HSPFS as Repairs and Maintenance expense and found that the Agency recorded payments made to QVR Home Improvement in the amount of $15,420. Our examination of the documentation included within the employee's personnel file as well as the employee's payroll records revealed that this individual was employed and paid by the Agency as a Property Manager. 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 permit the employee who is responsible for the maintenance of the facilities, to procure and approve for payment services from a home improvement company that he owns. As a result, $15,420 of Agency-reported Repair and Maintenance expense is disallowed (See p. 26, Notes to Schedules, note 13).

- Interview and inquiry with pertinent DSS and Agency personnel disclosed that, during the period of audit, the Agency entered into an operating lease agreement with a relative of the Executive Director (sister), for the use of a facility for the County program. We determined that the Agency and the relative are considered related parties pursuant to the Financial Accounting Standards Board FAS No. 57, Related Party Disclosures. The RCM indicates that related-party rent payments are allowable only to the extent that they do not exceed the amount the operator would have received had legal title to the rented items or facilities been vested in it. Although the Agency disclosed this related party transaction to DSS and reported only the operating costs associated with the rental property, our limited scope audit revealed the following:

- The Agency claimed $13,750 to the County for property taxes relating to the rental property. However, according to the RCM, property or real estate taxes are allowable only during the application process for tax exemption. The RCM stipulates further that providers are required to apply for and obtain the necessary exemption for not-for-profit organizations by the first deadline after the closing on a piece of property. We believe that, had the Agency owned the property, it would have met the requirements for tax exemption and, therefore, would not have incurred the related cost. As a result, an adjustment was necessary to disallow the related reported expense (See p. 26, Notes to Schedules, note 12).

- The Agency reported $10,772 of mortgage interest expense resulting from the Executive Director's purchase of the rental property, which was already in use by the County program, from a family member (father) in 2005. We reviewed written documentation indicating that two mortgages were obtained by the Executive Director in the total amount of $280,000. However, although the RCM directs that interest charges on bank loans from a licensed financial institution are allowable if such charges were incurred to finance the purchase of real property, the limited scope audit did not disclose any evidence that the proceeds of the mortgages were used to acquire the facility or that the proceeds benefited the County program. We found that the only parties that benefited from the transfer were the Agency's Executive Director (buyer) and his father (seller). As a result, since this transaction increased the County's occupancy costs but provided no corresponding enhancement to the County program, we believe that this activity was contrary to and/or in conflict with the goals and purposes of the County and therefore, not in accordance with the County Contract. Accordingly, reported interest expense of $10,772 is disallowed (See p. 26, Notes to Schedules, note 12).

- Although the Agency was contractually required to maintain full and complete records of services provided under the County Contract for a period of seven years, the limited scope audit disclosed $12,094 of expenses reported for the rental property for which it did not provide us with any substantiating documentation or the documentation provided did not contain sufficient details to determine if the expense benefited the County program or complied with applicable laws, contracts and regulations. These expenses consisted of $6,084 of depreciation expense associated with capital improvements which were purportedly made to the rental property as well as $350 of amortization expense associated with this facility for which it did not provide us with any written third party documentation, such as vendor invoices, receipts, contracts, cancelled checks, etc. The Agency also reported $4,103 of repairs and maintenance expenses for the rental property which consisted of three vendor invoices for which it did not provide the related cancelled checks. An inquiry made

by our office to the vendor's president confirmed that although the work was performed, the related payment was never received from the Agency. Lastly, the Agency reported $1,557 of repairs and maintenance expenses for the rental property, which consisted of two invoices from a vendor that we confirmed was dissolved prior to the work being performed. 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, $12,094 of occupancy costs reported for this facility are disallowed (See p. 26, Notes to Schedules, note 12).

The Agency inappropriately reported $39,006 of merchandise and vehicle 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. The RCM further directs that prior approval will be waived in an emergency situation; however the Agency must notify DSS' Housing Administrator within three business days of any emergency purchase and provide a rationale. Similarly, the RCM also requires DSS Housing Administrator approval for the acquisition or lease of any vehicle. Our limited scope audit revealed the following:

- The Agency did not provide us with written DSS approval obtained prior to the acquisition of $14,884 of fixed assets and $82,434 of leasehold improvements, each component of which was purchased at a cost that exceeded the $750 threshold. Similarly, the Agency did not provide us with DSS' prior written approval for the acquisition of a $13,080 vehicle. In response to our inquiries regarding the missing approvals, the Agency's officials asserted that verbal approvals were received from DSS for some of the acquisitions. The Agency also contended that although written approval was received for many of the acquisitions, due to the age of the assets, the underlying written documentation no longer exists within its files. We attempted to verify the Agency's assertions through interviews with pertinent DSS employees; however, they could not confirm that the purported verbal approvals were granted. In addition, due to the statutory destruction of vendor files, DSS could not confirm that written approval was granted for the assets in question. As a result, since it is the Agency's contractual obligation to obtain and retain adequate documentation supporting reported expenses,

$12,248 of the assets' reported Depreciation and Amortization expense is disallowed (See p. 25, Notes to Schedules, note 6).

- The Agency inappropriately reported as food expense the acquisition of $6,750 of furniture and $1,400 of printing cartridges, for which it did not provide us with DSS' prior written approval, as directed by the RCM. Each individual acquisition consisted of a large number of similar items each of which had a cost of less than $750. We found that all of the items included in each acquisition were purchased on the same day, were shipped to the same location and, although in aggregate each acquisition substantially exceeded the $750 threshold, were distributed between separate invoices, each of which did not exceed $750. The Agency contended that since no individual item or invoice exceeded $750 the expenses did not require the prior written approval from DSS as dictated by the RCM and therefore, no such approval was obtained. However, 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 will dictate the approval requirement, not the individual cost of each item included within the purchase. As a result, $8,150 of reported Food expense is disallowed (See p. 25, Notes to Schedules, note 7).

- The Agency inappropriately reported as Other expense the acquisition of $7,449 of computer equipment, $1,499 of kitchen starter kits and $4,579 of bedding, for which it did not provide us with DSS' prior written approval as directed by the RCM. Each acquisition consisted of a large number of similar items, each of which had a cost of less than $750. The Agency contended that since no individual item exceeded $750, the acquisitions did not require the prior written approval from DSS as dictated by the RCM and therefore, no such approval was obtained. However, 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 will dictate the approval requirement, not the individual cost of each item included in the purchase. As a result, $14,349 of reported Other expense is disallowed (See p. 27, Notes to Schedules, note 17).

- The Agency reported $4,259 of extraneous costs that were related to acquisitions which we disallowed because the Agency did not provide us with DSS' prior written approval as directed by the RCM. Accordingly, the related expenses were disallowed as follows:

  - Interest expense in the amount of $823 was disallowed because it related to two fixed assets that were purchased by the Agency without DSS' prior approval (See p. 25, Notes to Schedule, note 8).

  - Repairs and Maintenance expense in the amount of $2,200 that pertained to the installation of a substantial amount of computer equipment that was

acquired without DSS' prior approval was disallowed (See p. 26, Notes to Schedule, note 13).

- Repairs and Maintenance expense in the amount of $966, which pertained to repairs performed on a vehicle that was acquired without DSS' prior approval, was disallowed (See p. 26, Notes to Schedule, note 13).

- Insurance expense in the amount of $270 was disallowed because it related to a fixed asset that was purchased by the Agency without DSS' prior approval (See p. 25, Notes to Schedule, note 9).

Salaries/Wages and other expenses are over-reported by $64,950 due to costs that were not supported by sufficient documentation. The Agency was contractually required to maintain full and complete records of services provided under the County Contract for a period of seven years. However, the Agency reported numerous expenses for which it did not provide us with any substantiating documentation or the documentation provided did not contain sufficient details to determine if the expense benefited the County program or complied with applicable laws, contracts and regulations. As a result, since the RCM directs that the County of Suffolk retains the right to disallow any costs that are not properly or adequately documented, the following audit adjustments were necessary:

- Salaries/Wages reported by the Agency exceeded the actual wages paid by the Agency, as per the payroll records, by $51,421. We reconciled the Agency's payroll registers to the general ledger, Homeless Shelter Provider Financial Statements and Certified Financial Statements and found that $32,243 of the wages reported for the County Program, for which the Agency did not provide any written substantiating documentation such as payment records, time sheets, cancelled checks, etc., were not recorded in the Agency's general ledger or reported on the Agency's certified financial statements. In addition, although the remaining $19,178 of these purported wages was recorded through various adjustments to the Agency's general ledger which were included on the Agency's certified financial statements, the Agency did not provide us with written documentation substantiating the adjustments. As a result, $51,421 of reported Salaries/Wages expense is disallowed (See p. 24, Notes to Schedules, note 4).

- We analyzed the Agency's monthly credit card statements and found that the Agency reported $1,215 of incidental corporate credit card charges for which it did not provide us with any substantiating documentation such as original vendor invoices/receipts, agreements, etc., 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. Accordingly, $150 of Food expense, $192 of Licenses and Permits expense, $367 of Office expense and $506 of Travel expense are disallowed (See p. 25 and 26, Notes to Schedules, notes 7, 10, 11 and 16).

- We analyzed the Agency's monthly credit card statements and found that the Agency reported as Repairs and Maintenance expense $4,458 of corporate credit card charges related to various vehicle repairs. However, during the course of the limited scope audit the Agency did not provide any written documentation such as vendor invoices, agreements, work orders, etc., substantiating $4,321 of the vehicle repairs. In addition, the written documentation supporting the remaining $137 did not identify the vehicle on which the work was performed. As a result, since we were unable to conclusively verify that the repairs were performed on an Agency vehicle; $4,458 of reported Repairs and Maintenance expense is disallowed. (See p. 26, Notes to Schedules, note 13).

- The Agency did not provide adequate written documentation substantiating $7,856 of reported Telephone expense. We found that this amount consisted of a corporate credit card charge in the amount of $7,664 to Hyperoffice of which $5,117 was expensed during the period of audit. However, the Agency did not provide evidence with which we could conclusively verify that this expense benefited the County Program. It should be noted that the Agency did not provide any written documentation substantiating the remaining amount of $2,739, such as vendor invoices, agreements, cancelled checks, etc. Consequently, $7,856 of reported Telephone expense is disallowed (See p. 26, Notes to Schedules, note 15).

Food expenses are over-reported by $2,724 due to 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. We compared the journal entries

posted to the Agency's general ledger for all Start-Rite purchases to the corresponding vendor invoices and found that the Agency erroneously reported $2,724 for food expenses twice in the general ledger. We also traced the purchases in question to the related cancelled check and bank statement and found that the Agency made duplicate payments for the same invoices with no evidence of a subsequent refund of the overpayment by the vendor. Accordingly, the double reported expenses are disallowed (See p. 25, Notes to Schedules, notes 7).

RECOMMENDATIONS

Recommendation 1

The Agency should screen expenses to ensure that they are paid on a timely basis and that they are reasonable, necessary and directly related to the program as follows:

- To be reimbursable, reported expenses must comply with the requirements of the RCM, the County Contract and Agency policy. Accounting records must be maintained on an accrual basis with proof of payment provided in the subsequent accounting period.

- The Agency should only report salaries/wages that do not exceed the budgeted amounts approved by DSS. The Agency administration should obtain the proper written Departmental approvals when wages are expected to exceed the approved budget.

- The Agency must adequately review employee benefits to ensure that coverage for only authorized personnel is reimbursed with County funds and that covered employees are sufficiently contributing towards their coverage. All changes to employees' coverage should be handled in a timely manner, and followed-up to ensure completeness and accuracy.

- The Agency must ensure that the background of all prospective employees who will come in direct, unsupervised contact with the clients are reviewed and cleared by the County's Personnel Screening Review Committee, in accordance with Chapter 438 of the Laws of Suffolk County.

- The Agency must comply with its contractual obligation to ensure that each employee possess the required education, knowledge, experience and character necessary to qualify him/her individually for the particular duties to be performed. The Agency must also ensure that vacant positions are filled with the best qualified person(s) as the result of a competitive interviewing/screening process, and that position appointments are not based on or influenced by favoritism shown to family members or friends of the Agency's directors, officers or other principals.

Recommendation 2

As directed by the RCM, the Agency must not contract with consultants who are employees of the Agency or with consulting firms that are owned by Agency employees

and must not engage in any other activity that is contrary to and/or in conflict with the goals and purposes of the County. In addition, the Agency must disclose to the County, the existence of any such adverse interests, whether existing or potential.

Recommendation 3

Prior written approval by the Department's Housing Administrator is required for any purchase of furniture, fixtures, equipment, supplies or any items whose cost in aggregate or individually, exceeds seven hundred fifty dollars ($750); for the acquisition of Agency vehicles or; prior to entering into consulting agreements.

Recommendation 4

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

Recommendation 5

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.

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

SCHEDULES

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

Schedule 1

Project ReDirect, Inc.
Statement of Reported and Adjusted Revenue, Adjusted Expenses and Net Audit Adjustment
For the Period July 1, 2009 through June 30, 2010

Notes	Description	Amount Reported	Audit Adjustments	Adjusted Amount
(1)	Suffolk County Per Diem Funding	$ 3,329,463	$ (5,484)	$ 3,334,947
(2)	Other Per Diem Revenue/Client Contributions	27,721	(15,279)	43,000
(3)	Contractually Mandated Release of Capital Reserve Funds	15,084	-	15,084
	Total Revenues	3,372,268	(20,763)	3,393,031
	Total Expenditures (from Schedule 2):	3,353,940	400,147	2,953,793
	Total Amount Due Suffolk County For Audit Period	$ 18,328	$ (420,910)	$ 439,238

See Notes to Schedules (p. 24)

Schedule 2

Project ReDirect, Inc.
Statement of Reported and Adjusted Expenses
For the Period July 1, 2009 through June 30, 2010

Notes	Description	Amount Reported	Amount Over (Under) Reported	Adjusted Amount
(4)	Salaries/Wages	$ 1,753,802	$ 153,249	$ 1,600,553
(5)	Fringe Benefits	559,030	35,646	523,384
	Consultant	9,744		9,744
	Continuing Education	4,000		4,000
(6)	Depreciation & Amortization	15,779	12,248	3,531
	Dues and Subscriptions	137		137
(7)	Food	39,557	11,024	28,533
(8)	Interest	1,685	1,657	28
(9)	Insurance	37,077	270	36,807
(10)	Licenses & Permits	781	216	565
(11)	Office Expense	15,338	367	14,971
	Professional Fees	64,063		64,063
(12)	Rent - Building	405,960	36,616	369,344
	Rent - Vehicles, Equipment, etc.	21,569		21,569
(13)	Repairs & Maintenance	90,823	23,044	67,779
(14)	Security	101,053	101,053	-
(15)	Telephone	42,873	7,856	35,017
	Training	7,572		7,572
(16)	Travel	28,591	2,235	26,356
	Utilities	95,216		95,216
(17)	Other Expense	59,290	14,666	44,624
	Total Expenses	$ 3,353,940	$ 400,147	$ 2,953,793

See Notes to Schedules (p. 24)

Notes to Schedules
Project ReDirect, Inc.

(1) Suffolk County Per Diem Funding is the amount paid to the Agency for services rendered pursuant to its contract with the County. The County paid the Agency on a fee for service basis at a per diem rate multiplied by the number of days each client is housed. The per diem rate was established by DSS based on a proposed Agency budget and review of Agency expenses. We found that the per diem payments made by DSS exceeded the per diem payments reported by the Agency by $5,484.

(2) 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 $15,279 of client contributions which, according to DSS, should have been collected during the period of audit and serve to offset the related client expenses.

(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 fixed expenditure period, during which time the fund must be used or returned to the County. The expenditure period begins on the first day of the subsequent period after the year of the fund establishment. During the period July 1, 2009 through June 30, 2010, the Agency determined that $15,084 of reserve funds that were established by the Agency in prior periods had not been utilized within the mandated expenditure period. Therefore, as required by the RCM, the Agency recognized $15,084 of unused reserve funds as surplus which must be returned to the County.

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

Unapproved wages – personnel for which the Agency did not properly seek DSS screening and approval	$ 67,313
Unallowable wages because they were paid to an individual who did not possess the required qualifications for the position hired as as dictated by the County Contract	23,269
Excess wages paid over budget	3,838
Unallowable cost - cash payouts for unused vacation accruals	7,408
Lack of sufficient supporting documentation	51,421
Total	$ 153,249

Notes to Schedules
Project ReDirect, Inc.

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

Fringe benefits associated with unapproved and unallowable wages	$ 18,405
Unreasonable costs - non program related	9,914
Unnecessary costs - costs associated with uncollected employee contributions	7,190
Unallowable late payment penalty	137
Total	$ 35,646

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

Unallowable costs because they exceeded $750 but were not preapproved by DSS	$ 12,248

(7) The Food Expense adjustment consists of the following disallowed expenses:

Unallowable costs because they exceeded $750 but were not preapproved by DSS	$ 8,150
Accounting error - double posting in General Ledger	2,724
Lack of sufficient supporting documentation	150
Total	$ 11,024

(8) The Interest Expense adjustment consists of the following disallowed expenses:

Interest charges related to unapproved merchandise acquisitions	$ 823
Unallowable interest charges because they exceeded the IRS imputed rate	834
Total	$ 1,657

(9) The Insurance Expense adjustment consists of the following disallowed expenses:

Insurance charges related to unapproved Fixed asset acquisitions	$ 270

(10) The Licenses and Permits Expense adjustment consists of the following disallowed expenses:

Unallowable Costs – newspaper subscriptions	$ 24
Lack of sufficient supporting documentation	192
Total	$ 216

Notes to Schedules
Project ReDirect, Inc.

(11) The Office Expense adjustment consists of the following disallowed expenses:

Lack of sufficient supporting documentation	$ 367

(12) In accordance with the RCM, the Agency reported as Rent – Building expense, the operating costs of a facility that was leased by the Agency from the sister of the Agency's Executive Director. We found that some of these expenses were prohibited by the reimbursable RCM. The related disallowances are as follows:

Unallowable property taxes	$ 13,750
Lack of sufficient supporting documentation	12,094
Unreasonable interest expenses	10,772
Total	$ 36,616

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

Unallowable costs – repairs performed on a vehicle which was acquired without DSS' prior approval required by the RCM	$ 966
Lack of sufficient supporting documentation	4,458
Unallowable costs because they exceeded $750 but were not preapproved by DSS	2,200
Unreasonable costs - costs consummated pursuant to a conflict of interest relationship	15,420
Total	$ 23,044

(14) The Security Expense adjustment consists of the following disallowed expenses:

Unreasonable costs – costs consummated pursuant to a conflict of interest relationship	$ 101,053

(15) The Telephone Expense adjustment consists of the following disallowed expenses:

Lack of sufficient supporting documentation	$ 7,856

(16) The Travel Expense adjustment consists of the following disallowed expenses:

Unallowable cost – fuel expense associated with an employee's commute between work and home	$ 1,729
Lack of sufficient supporting documentation	506
Total	$ 2,235

Notes to Schedules
Project ReDirect, Inc.

(17) The Other Expense adjustment consists of the following disallowed expenses:

Unallowable costs – sales tax	$ 317
Unallowable costs because they exceeded $750 but were not preapproved by DSS	14,349
Total	$ 14,666

APPENDIX

APPENDIX A

Exit Conference Report

Auditee: Project ReDirect, Inc.

The unofficial draft audit report for the audit period July 1, 2009 through June 30, 2010, was transmitted to the Agency on August 5, 2016, with a letter inviting the Agency to submit a formal written response within 30 days of receipt of the report and/or attend an exit conference no later than August 26, 2016.

In an e-mail submitted by the Agency's executive director (Executive Director) to our office on August 24, 2016 the Agency requested an exit conference to discuss the audit findings. Furthermore, subsequent correspondence between the Agency's controller (Controller) and our office revealed that the Agency did not dispute the audit findings nor did it wish to submit a formal written response to the audit.

At this time due to other audit priorities as well as staffing limitations, we deemed that it would be in the best interest of our office to postpone both finalization of the audit report and the exit conference.

The Agency's agreement with the audit findings was further confirmed in an e-mail submitted by the Executive director to our office on December 12, 2016.

An exit conference was held with the Agency on March 6, 2017, to discuss how the Agency should proceed regarding reimbursement to the County of the over payment disclosed by our audit of fiscal year ending June 30, 2010. Those in attendance were as follows:

Name	Title	Organization
Louis Necroto	Chief Deputy Comptroller	Audit & Control
Frank Bayer	Executive Director of Auditing Services	Audit & Control
Stephen McMaster	Senior Investigative Auditor	Audit & Control
Thomas Macholz	Investigative Auditor	Audit & Control
Victor Seltzer	Executive Director	Project ReDirect, Inc.
Gary Cagnard	Controller	Project ReDirect, Inc.

APPENDIX A (Cont'd)

Exit Conference Report

The Controller began the exit conference by reiterating that the Agency did not dispute the audit findings reflected in our audit of the July 1, 2009 through June 30, 2010 fiscal year. However, the Controller expressed serious concern regarding the Agency's ability to continue operations considering the financial constraints caused by the substantial liability to the County as a result of this and the prior audit. As support for this concern, the Controller disseminated an analysis which reflected the Agency's current distressed financial position as well as alluded to the audited financial statements for fiscal years ending June 30, 2014 and 2015 in which the independent auditors indicated that there was substantial doubt about the Agency's ability to continue as a going concern. Furthermore, since the Agency's funding consists solely of per diem payments made by the County pursuant to the Emergency Shelter Services Contract (Contract); it would only be a matter of time before it would no longer be able to fulfill its obligation to the County.

The Executive Director concurred with the Controllers assessment and further stated that since he does not believe that the Agency is financially sustainable, he does not intend to submit a response to the Suffolk County Department of Social Services' (DSS) request for qualifications (RFQ) for the provision of Shelter Services for Homeless Families with Children and/or Homeless Single Adults residing in Suffolk County which was advertised in January 2017. As an alternative, the Executive Director intends to submit a response to the RFQ on behalf of a newly established entity with the hope of receiving a Contract and assuming the operation of the Agency's current facilities without inheriting the substantial liability due to the County.

It is important to note that all current and prospective providers of emergency housing services must submit an acceptable response to the RFQ no later than March 20, 2017 to be eligible to receive a contract with the County subsequent to June 30, 2017. Consequently, a decision to forgo responding to the RFQ will cause the cessation of the Agency's operation at the end of business on June 30, 2017 resulting in a substantial loss to the County with respect to the outstanding overpayments disclosed by our audits.

We commended the Agency's transparency regarding future business decisions caused by our audits. However, our acceptance of business decisions such as these by the Agency's current management will serve to minimize the severity of the Agency's prior mismanagement as well as permit the related remedies provided by our audits to be circumvented by the Agency resulting in a substantial loss to the County. Furthermore, we do not believe that it would be prudent on the part of the County to turn over an existing emergency shelter program of the magnitude of the Agency to a newly established entity with relatively no prior history with the County as well as limited financial resources. A newly established entity possessing the qualities necessary to be deemed a successful RFQ responder should be selected only on a limited trial basis and on a much smaller scale.