

Audit Report

Grace Smith House Inc.
January 1, 2009– December 31, 2009

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Comptroller's Summary

While conducting our entrance conference on September 10, 2010, GSH stated they found irregularities in their 2009 accounting records and processes, which were identified in mid-2010 and were continuing to be addressed. I commend GSH Management for its candor with these difficult disclosures. GSH continued to cooperate fully with the Comptroller's Office throughout the audit to address all claiming and accounting concerns. GSH has undergone significant staffing changes during 2010, which included a new Executive Director, who commenced employment in June 2010, and the Financial Director's resignation in July 2010. I encourage and expect both the new Management and the Board of Directors to work closely together to continue the progress that has been made.

Background

Grace Smith House, Inc. (GSH) is a not-for-profit licensed domestic violence service provider. GSH provides services to women and their dependent children. Additional information is available on the GSH website <http://www.gracesmithhouse.org>.

Audit Scope, Objective and Methodology

The objective of our audit was to review the 2009 accounting records and processes for the time period January 1, 2009 – December 31, 2009. Due to irregularities noted, we expanded our scope to include 2010 claims which were paid.

Grace Smith House contracts with Dutchess County for 2009 totaled \$1,066,883. As of October 2010, Dutchess County reimbursements for 2009 claims amounted to \$713,156.73. At that time, several 2009 claims were pending due to contract amendments waiting execution and the corresponding claim revisions.

Eleven programs were provided funding under the following three contracts in 2009.

Department of Social Services-

Contract #08-0346: \$350,051.15 provided funding for nine programs including six non-residential programs and three legal service programs for victims of domestic violence;

Contract #09-0003: \$351,425.58 provided funding for DSS qualified residents of the Grace Smith House domestic violence shelter.

Youth Bureau

Contract #08-0021: \$11,680.00 provided funding for the prevention of juvenile violence.

Exhibit I provides further detail of the contracts and their respective programs, funding allocated and claimed as of 10/1/10.

The audit included review of the agency's control environment, claims submitted to Dutchess County, agency accounting records and original support documentation, banking and cash handling, purchasing processes, W-9 collection and 1099 issuance.

Summary of Findings

- Accounting processes and records were deficient in 2009: *However, in 2010 the agency was actively reviewing, revising and correcting accounting processes and records.*
- Oversight and monitoring of accounting processes was not in place to ensure accurate records and timely claims in 2009.
- 2009 claims submitted and paid were not supported by accurate claiming documentation. Revisions were in process to correct errors. Net over claims resulted in a total of \$8,675.43 due to the County for 2009.
- In addition, as of the writing of this audit, outstanding 2009 claims were waiting for contract revisions to authorize payment and offset disallowances.
- As previously noted, GSH had initialized review of accounting processes prior to and continuously throughout our audit.

Detailed Findings

CONTROL ENVIRONMENT

Management for the purpose of this report is defined as the Executive Director and the Board of Directors.

Findings:

The Agency's accounting processes and internal controls for daily operations were deficient. Financial and administrative internal controls were not in place to ensure an effective accounting system was in place. Specifically,

In 2009

- Accounting and financial records were not properly designed and effectively executed. The agency did not have comprehensive written fiscal policies and procedures describing accounting activities to assist employees in the performance of their duties and to assist management in monitoring.
 - Duties were not properly segregated. The former Financial Director had total control of critical accounting activities. As a result, errors in claim reimbursement requests were not identified due to a lack of checks and balances, duty segregation and oversight procedures. Oversight of the Financial Director's activities was not evidenced.
- Risk assessment was not evident to identify and correct accounting deficiencies.

In 2010

- Risk assessment commenced to identify and address accounting deficiencies.

Recommendations:

- Management should continuously increase its knowledge of internal controls regarding the agency's accounting activities and ensure that employees at all levels understand the importance of control procedures. Management should develop comprehensive manuals and operating procedures for key accounting activities which comply with state, federal and best accounting practices, which promote proper checks and balances and oversight. Policies and procedures should include the following: authorization and oversight; properly designed records; appropriate security of assets and records; segregation of duties; and periodic reconciliations and verification.
- Accounting duties should be properly segregated to ensure checks and balances. Continuous risk assessment should be formally done by management and documented to ensure accounting deficiencies are identified, assessed and corrected in a timely manner.

2009 CLAIM REVIEW

Exhibit II is a comprehensive review of all adjustments. As shown in Exhibit II, disallowances totaled \$18,025.50 which is offset by 2009 claimable expenses, totaling \$9,350.07 resulting in \$8,675.43 due to the County.

Findings:

Deficiencies were noted as follows:

- Claims were not submitted timely; claims for the first three (3) quarters of 2009 were submitted for reimbursement during the fourth quarter of 2009. Some claims still have not been submitted for 2009 as of the writing of this audit.
- In 2009, GSH did not maintain salary allocation schedules, resulting in salary over claims and salary underclaims.

Specific details of overclaims:

- Payroll expenditures for 2008 were erroneously claimed in 2009. This resulted in overclaims totaling \$7,617.42 paid by the County.
- GSH employee bonuses were included in salaries claimed and paid by the County. Bonuses are not reimbursable with County funds as they are considered a "gift" of public funds. This resulted in an overclaim of \$3,875.00 paid by the County.
- Duplicate paychecks for two GSH employees who had tendered their resignations in 2009 and were erroneously issued additional payroll checks. In addition, duplicate claims for employee salaries were submitted for the same time periods for the various county-funded programs. This resulted in overclaims totaling \$3,369.10 paid by the County.
- Duplicate expense claims for telephone charges and an employee reimbursement were erroneously claimed.
- Overclaims totaling \$2,864.24 for Pro-Bono program expenses were paid by the County.

Specific details of unclaimed funds:

- In reviewing GSH payroll records and salary allocations (which were prepared by GSH in 2010 for 2009 payroll claims) it was noted that all salary costs were not claimed for specific 2009 pay periods. Overclaims were offset by these unclaimed funds.
- Funds for Family Court and Divorce Project legal services were not claimed as budget revisions and a formal contract between the GSH and vendor were not in place for 2009. Amendments were in process at the time of this writing. Overclaims for Pro-Bono program expenses will be offset by these unclaimed funds. In addition, overclaims for expenditures identified above which were in excess of the unclaimed salary funds will be offset by the legal service programs to ensure all funds for 2009 are collected and credited to the appropriate year.

Recommendations:

- Claims should be accurate.
- Management should continue to develop comprehensive operating procedures for key accounting activities which comply with state, federal and best accounting practices, which promote proper checks and balances and oversight.
- Policies and procedures should include the following: authorization and oversight; properly designed records; appropriate security of assets and records; segregation of duties; and periodic reconciliations and verification.

CASH HANDLING AND BANKING

Findings:

- Policies, procedures and guidelines for cash handling and banking records were not available for audit review.
- The Agency's check register numbers and their corresponding payment amounts did not consistently match the check numbers that cleared the bank per the agency bank statements. In addition, checks were not consistently issued consecutively and many voided checks were missing.
- The Executive Director's lone signature was found on a check for \$51,302.00 to an outside vendor which indicated the agency did not have an established procedure requiring dual signatures on large payments.
- The agency's operating account checks were not secured with a watermark to prevent forgery.
- Errors in banking records were not identified by GSH due to a lack of oversight.
- Duties were not segregated: In 2009, the Financial Director approved invoices for payment, processed the payment and recorded the transaction in the general ledger and periodically reconciled the bank statements.

Recommendations:

- Management should continue to review all cash handling and banking policies, procedures and guidelines based on best accounting practices to ensure all of the above deficiencies are addressed.
- Continuous monitoring and management oversight must be instituted.

REVENUE RECORDS

Findings:

- The following entries were incorrect in the agency's ledgers:
 - A Dutchess County payment was recorded in the incorrect revenue account for Non Dutchess County DSS –other Counties.
 - Westchester County payments were recorded in the Dutchess County DSS revenue account.

Recommendation:

- Processes should be implemented to ensure accounting entries are accurate.

FINANCIAL STATEMENT REVIEW

Finding:

- The Agency's audited Financial Statements for 2009, Note 10 - Government Grants noted incorrect Dutchess County contracts numbers.

Recommendation:

- The agency's audited financials should be reviewed by management to ensure accuracy.

PURCHASING

Findings:

- In 2009, there was no process in place to document approvals for purchases and invoice payments. Requests for purchases were verbally initiated by program personnel; the fiscal director verbally approved the availability of funds in the budget and then paid the invoices.
- Some invoices were paid late incurring unnecessary late charges.
- Contracts were not in place for all vendors supplying services to GSH:
 - The vendor providing legal services for GSH did not have an executed contract for 2009.

Recommendation:

- Best accounting practices for purchasing and accounts payable should be instituted to address the above deficiencies.

W-9 AND 1099 REVIEW

The IRS requires issuance of Form 1099 to individuals/businesses that receive payment of \$600.00 or more in a calendar year for services provided. An IRS W-9 Form identifies a vendor's business status.

Findings:

- The agency did not have W-9s available for all vendors utilized. *During our audit, staff was in the process of obtaining W-9s.*
- For 2009, we noted six vendors who should have been issued a 1099 but were not.

Recommendations:

- GSH should obtain W-9s from all providers of services prior to payment.
- As required by IRS regulations, 1099s must be issued to all applicable vendors.

EXHIBIT I

Contract #08-0346-SS-A1	Description	Contracted for 2009	Payments for 2009 (as of 10/1/10)
Pro Bono	Legal Services	\$56,100.00	\$55,876.30
Family Court Representation	Legal Services	\$106,753.00	\$0.00
Domestic Violence Project	Legal Services	\$81,304.00	\$0.00
Non-Residential-Domestic Violence-Latina Outreach Program Services	Weekly counseling, support groups, case management, crisis intervention, advocacy, Latina community outreach and a 24 hr hotline.	\$39,308.00	\$39,213.09
Non-Residential –Domestic Violence- Program Services	Weekly counseling support groups, case management, crisis intervention, advocacy, community outreach and a 24 hr hotline.	\$80,492.00	\$75,973.53
Non-Residential- Domestic Violence-Life Skills Program Services	The Life Skills -Wings Program provides workshops for victims to address the psychological and emotional side effects of abuse.	\$50,665.00	\$45,915.99
Non-Residential- Domestic Violence-CPS Liaison Program Services	Children's Services Unit housed at GSH 1 day per week as a consultant on cases of domestic violence.	\$43,006.00	\$38,074.35
Non-Residential- Family Violence Prevention- Program Services	Provides advocacy, support counseling, intensive case management, children's services, transportation to TANF eligible victims of domestic violence	\$39,831.00	\$37,361.28
Non-Residential- DC Family Court Advocacy Program Services	Provides information to victims about the court system; advocacy, counseling and crisis intervention, shelter referral services.	\$57,744.00	\$57,636.61
Contract Totals for above programs	Contract #08-0346-SS-A1	<u>\$555,203.00</u>	<u>\$350,051.15</u>
Contract #09-0003-SS	Provide residential services for victims of domestic violence; per diem rate established by NYS OCFS paid directly to the agency by DSS	<u>\$500,000.00</u>	<u>\$351,425.58</u>
Contract #08-0021-YB-A1,A2,A3	Provide training for youth for the prevention of juvenile violence	<u>\$11,680.00</u>	<u>\$11,680.00</u>
Grand Totals		<u>\$1,066,883.00</u>	<u>\$713,156.73</u>

EXHIBIT II

08-0346-12/08-SS-A1
01/01/09 -12/31/09

	Domestic Violence		Non-Residence		Domestic Violence		Domestic Violence		Family Violence		DC Family Court		Legal Services		
	Latina Outreach	Domestic Violence	Domestic Violence	Life Skills	CPS Liaison	Prevention Services	Advocacy Services	Family Court	Divorce Project	ProBono	Totals				
Program Budgets	\$39,308.00	\$80,492.00	\$50,665.00	\$43,006.00	\$39,831.00	\$57,744.00	\$106,753.00	\$81,304.00	\$56,100.00	\$555,203.00					
Totals paid	\$39,213.09	\$75,973.53	\$45,915.99	\$38,074.35	\$37,361.28	\$57,636.61	\$0.00	\$0.00	\$55,876.30	\$350,051.15					
Program Balances	\$94.91	\$4,518.47	\$4,749.01	\$4,931.65	\$2,469.72	\$107.39	\$106,753.00	\$81,304.00	\$223.70	\$205,151.85					
2009 Disallowances:															
Bonuses															
2008 Claims made in															
Duplicate Salary		\$1,500.00	\$250.00	\$500.00	\$500.00	\$375.00									\$3,875.00
Duplicate Expense		\$861.52	\$1,107.68	\$1,015.36	\$830.80	\$1,376.38									\$7,617.42
Total 2009		\$0.00	\$134.82	\$1,307.69	\$0.00	\$480.52									\$3,369.10
Disallowances	\$1,611.52	\$4,594.57	\$1,492.50	\$2,823.05	\$2,407.72	\$2,231.90									\$18,025.50
Claimable 2009 Expenses	\$1,561.54	\$3,941.55	\$1,507.69	\$0.00	\$0.00	\$2,339.29									\$9,350.07
Net Due to County	\$49.98	\$653.02	(\$15.19)	\$2,823.05	\$2,407.72	(\$107.39)									\$8,675.43

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James L. Coughlan
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January 5, 2011

Ms. Renee Fillette
Executive Director
Grace Smith House, Inc.
1 Brookside Avenue
Poughkeepsie, New York 12601

Dear Ms. Fillette,

We have conducted an audit of the Grace Smith House, Inc. for the period January 1, 2009 through December 31, 2009. A draft copy of our report is enclosed for your review and comment.

The audit is scheduled for release January 18, 2011. Please provide your response by that date so we can include it in the report.

If you have any questions, please feel free to contact us.

Thank you

James L. Coughlan
Comptroller