City and County of San Francisco

Office of the Controller – City Services Auditor

DEPARTMENT OF PUBLIC HEALTH:

Monitoring of A-133 Single Audit Reports for Agencies Awarded Federal Funds by DPH in Fiscal Year 2007-08

August 5, 2009

CONTROLLER'S OFFICE
CITY SERVICES AUDITOR

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Paige Alderete, Audit Manager
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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

August 5, 2009

Mitchell Katz, MD
Director of Public Health
Department of Public Health
101 Grove Street, Suite 308
San Francisco, CA 94102

Dear Dr. Katz:

The Office of the Controller, City Services Auditor Division (CSA) presents its report on the monitoring of nonprofit organizations receiving federal funding through the Department of Public Health (DPH) in fiscal year 2007-08. DPH, as the primary recipient of federal grants, is required to monitor those organizations, or sub-recipients. CSA agreed to assist DPH's monitoring requirement by compiling all findings for federal grant sub-recipients receiving $500,000 or more in federal funds who are required to submit a single audit report in accordance with OMB Circular A-133.

Of The 37 nonprofit organizations who received $500,000 or more in federal funds, 12 had single audit findings; 15 received management letter comments; and 6 incurred both single audit findings and management letter comments. None of the organizations had questioned costs. However, one organization did not provide the required single audit report, and another organization did not make available the response to their management letter comments.

This report includes three recommendations regarding monitoring the use of federal funds awarded to sub-recipients. A response from DPH is attached to this report.

Respectfully submitted,

Tonia Lediju
Audit Director

cc: Mayor
Board of Supervisors
Budget Analyst
Civil Grand Jury
Public Library

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Organization (continued)

INTRODUCTION

Background

Under the requirements of the Single Audit Act and OMB Circular A-133, a primary recipient of federal awards must monitor its sub-recipients to determine whether the sub-recipients have expended the awards in accordance with applicable laws and regulations. Sub-recipients receiving federal awards of $500,000 or more must submit single audit reports performed in accordance with OMB Circular A-133. As the primary recipient, the Department of Public Health (DPH) is required to ensure that these audits are performed, and must follow-up on the resolution of all reported findings and questioned costs. The DPH requested assistance of the Office of the Controller's City Services Auditor Division (CSA) in compiling all findings for sub-recipients required to submit a single audit report.

Scope and Methodology

DPH provided CSA with spreadsheets of all nonprofit organizations that received pass-through, federal funds from DPH in fiscal year 2007-08. CSA obtained and reviewed single audit reports for the nonprofit organizations that received over $500,000. For the single audit reports that contained findings, CSA requested the nonprofit organization's corrective action, or response, to the findings. When applicable, management letter comments, recommendations, and the current status of the comments were also obtained.

This review covered single audits that were performed for the fiscal year ending June 30, 2007, and some performed for the 2007 calendar year. CSA did not verify the status of the audit and management letter responses.

Monitoring Results

CSA reviewed single audit reports from a total of 37 nonprofit organizations. Twelve of the 37 nonprofit organizations had single audit reports containing findings and recommendations, 15 had management letter comments, and six had both single audit findings and management letter comments. This is documented in the summary table on page three. None of the organizations had questioned costs.

The County of Marin AIDS Office did not provide the required single audit report, and Horizon Unlimited of San Francisco Inc. did not make available its responses to the management letter comments.

Recommendations

To better monitor the use of federal funds awarded to sub-recipients, the Department of Public Health should take the following actions:

1. Follow up with the organizations that have single audit or management letter findings and ensure that corrective actions have been implemented.

2. Follow up with the County of Marin AIDS Office and Horizon Unlimited of San Francisco Inc. to obtain the required missing documentation.

3. Periodically report results of the department's follow up work to the Public Health Commission to help assure the Commission that federal funds awarded through the department are properly accounted for.

SUMMARY OF NONPROFIT ORGANIZATIONS REVIEWED

Organization	Total City Funds Expended	Federal Funds Expended *via* DPH	Single Audit Findings		Management Letter Comments	
			Yes	No	Yes	No
AIDS Emergency Fund/Breast Cancer Emergency Fund	$ 1,429,365	$ 594,239		x	x	
Asian & Pacific Islander Wellness Center: Community HIV/AIDS Services, Inc.	1,139,863	13,703		x		x
Asian American Recovery Services, Inc.	7,289,106	1,267,684		x	x	
Bayview Hunters Point Foundation for Community Improvement	5,987,614	818,263	x			x
Black Coalition on AIDS, Inc.	852,339	107,498		x		x
California Family Health Council, Inc.	13,722	9,990	x		x	
Center for Human Development	147,861	140,815		x	x	
Chinatown Community Development Center	1,855,661	17,009		x	x	
Community Awareness and Treatment Services, Inc.	7,284,329	550,000		x	x	
County of Marin AIDS Office (report not provided)	677,137	677,137	NA		NA	
County of San Mateo AIDS Program	1,546,387	1,541,549	x		x	
Dolores Street Community Services, Inc.	2,068,218	132,756	x		x	
Family Service Agency of San Francisco, Inc.	8,135,413	5,000		x	x	
Friendship House Association of American Indians, Inc. and Affiliate	446,886	40,000		x		x
Haight Ashbury Free Clinics, Inc.	11,248,690	1,574,232		x		x
Horizons Unlimited of San Francisco, Inc. (response to ML not provided)	1,253,314	538,246		x	x	
Huckleberry Youth Programs, Inc.	1,776,305	26,121		x		x
Instituto Familiar de la Raza, Inc.	3,845,330	388,007		x		x
Japanese Community Youth Council	8,080,502	711,364		x		x
Larkin Street Youth Services	4,959,681	197,460	x		x	
Latino Commission on Alcohol and Drug Abuse Services	1,383,210	50,000		x		x
Mission Area Health Associates, Inc.	4,171,099	1,617,864		x		x
New Leaf: Services for Our Community	2,408,908	904,234		x	x	
North East Medical Services	47,734	47,734	x		x	

Organization	Total City Funds Expended	Federal Funds Expended *via* DPH	Single Audit Findings		Management Letter Comments	
			Yes	No	Yes	No
San Francisco Bar Association Volunteer Legal Services Program	486,613	59,620		x		x
San Francisco Food Bank	878,197	42,100		x	x	
San Francisco Particular Council of the Society of St. Vincent de Paul	1,744,862	597,527	x			x
San Francisco State University	3,929,540	14,125	x			x
San Francisco Study Center	3,719,903	295,611		x		x
San Francisco Suicide Prevention, Inc.	583,422	76,694		x		x
Tenderloin Health	5,055,688	699,560	x			x
University of California, San Francisco	12,180,382	6,565,299	x		x	
University of the Pacific – School of Dentistry	712,864	620,010	x			x
Walden House, Inc.	14,323,660	433,035		x		x
Westside Community Services, Inc.	13,490,438	2,001,853		x		x
Young Men's Christian Association of San Francisco	7,158,934	298,483		x		x
Youth Leadership Institute	505,462	288,364	x			x
Total	**$142,818,639**	$ 21,930,584				

(NA) Indicates the document was not available

AIDS EMERGENCY FUND/BREAST CANCER EMERGANCY FUND

AIDS Emergency Fund/Breast Cancer Emergency Fund (AIDS Fund) provides emergency financial assistance to persons with AIDS, disabling HIV, or breast cancer. Grants awarded to individuals are paid directly to providers for rent, utility and telephone bills, medical equipment and supplies for home care, funeral expenses, and travel expenses. AIDS Fund received approximately 41% of its revenues from the United States Department of Health and Human Services through the HIV Emergency Relief Formula/Supplemental Grant to serve clients in San Francisco.

Total Amount Received From the City in FY 2007-08: $1,429,365

Federal Funds Received From Public Health in FY 2007-08: $594,239

Single Audit Reviewed: Fiscal year ended February 28, 2007

Single Audit Findings: None

Management Letter Comments:

Comment 1: Expense Reimbursement

Condition: Several employee expense reports either lacked receipts or had inadequate documentation.

Recommendation: Procedures should be instituted to ensure that proper documentation accompany all expense reports.

Current Status: AIDS Fund changed its reimbursement policy in October 2007 to better catch clerical errors like the one identified. Rather than have expense reports approved by an employee's direct supervisor, all expense reports must now be approved by the Executive Director, who checks for complete documentation before approving. No expense reimbursements of any kind are included in any contract between AIDS Fund and SFDPH. The expense reports in question were related to fundraising and other activity of the agency.

Comment 2: Periods of Availability – Federal Funds

Condition: Costs of approximately $2,500, which were incurred subsequent to end of the CARE 2006/2007 contract period, were charged to that contract.

Recommendation: By regulation, funds are available only for the budget period designated on the Notice of Grant Award.

Current Status: The $2,500 expenditure noted was for material and supplies added to the SFDPH contract (Fourth Amendment) negotiated in January 2007 and certified by SFDPH on March 2, 2007, two days after the end of the CARE fiscal period. The materials were tentatively ordered in February, but AIDS Fund withheld the final order and payment for the specific items until they could be sure the contract was certified and reimbursement would be allowable. Payments to vendor were dated several days after the certified contract was received at AIDS Fund from DPH. Such amendments for specific items are exceedingly rare, and this situation would not have occurred if DPH had certified the contract in a timely manner. Since the date of the management letter, AIDS Fund's auditors have completed the 2008 audit and found no issues of importance warranting a management letter.

Prior Year Management Letter Comment:

Comment 1: Client Grants

Condition: Payment of client grants did not indicate purposes for which the payment is to be used, and the preparation and the mailing of the check is done by the same person.

Recommendation: Clients' payments should be accompanied by a letter limiting the use of payments to allowable purposes, and grant checks should be mailed by someone other than the check preparer.

Prior Year Status: The AIDS Fund took steps to address both concerns at the time they were pointed out, even prior to receiving the management letter. Payments to client money managers now list how the payment must be used. Also, since early 2006, checks have been mailed by someone other than the preparer.

ASIAN & PACIFIC ISLANDER WELLNESS CENTER: COMMUNITY HIV/AIDS SERVICES, INC.

The Asian and Pacific Islander Wellness Center: Community HIV/AIDS Services, Inc. (Wellness Center) is a community-based organization dedicated to serving Asians and Pacific Islanders in San Francisco who are living with HIV or who are at risk for HIV infection. The Wellness Center receives most of its revenue from government grants and contracts in the current fiscal year. A significant reduction in the level of this revenue, if this were to occur, may have an effect on the Wellness Center programs and activities. The current programs at the Wellness Center are as follows: HIV Care Services, Health Education, Research and Technical Assistance, and Social Marketing.

Total Amount Received From the City in FY 2007-08: $1,139,863

Federal Funds Received From Public Health in FY 2007-08: $13,703

Single Audit Reviewed: Fiscal year ended March 31, 2007

Single Audit Findings: None

Management Letter Comments: None

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ASIAN AMERICAN RECOVERY SERVICES, INC.

The mission of Asian American Recovery Services, Inc. (AARS) is to decrease the incidence and impact of substance abuse in the Asian and Pacific Islander communities of San Francisco and other Bay Area counties. To accomplish this mission, AARS develops and provides innovative prevention, treatment and research services for individuals, families, and communities. Because there are multiple causes and effects of substance abuse, AARS also engages in ancillary activities to meet its goal. AARS receives its funding primarily from governmental agencies.

Total Amount Received From the City in FY 2007-08: $7,289,106

Federal Funds Received From Public Health in FY 2007-08: $1,267,684

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comment:

Comment 1: Client Grants

Condition: AARS does not have an updated written accounting manual.

Recommendation: AARS should update their written accounting manual.

Current Status: AARS is currently in the process of updating and drafting changes to the manual and will have a draft prepared for review by the January 2008 Board Meeting.

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BAYVIEW HUNTERS POINT FOUNDATION FOR COMMUNITY IMPROVEMENT

The Bayview Hunters Point Foundation for Community Improvement (the Foundation) is a nonprofit corporation founded in 1971 to help residents of the Bayview Hunters Point community in their fight against crime, alcohol and drug abuse, and mental disorders. The Foundation receives the majority of its revenue from the City and County of San Francisco (City). It employs approximately 87 people and administers numerous programs, which include substance abuse programs, mental health services, violence prevention, and youth services.

Total Amount Received From the City in FY 2007-08: $5,987,614

Federal Funds Received From Public Health in FY 2007-08: $818,263

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Finding:

Finding 07-1: Allocation of Support Service Costs

Condition: The Foundation allocated support service costs to programs based on the indirect rates provided in the grant agreements. These rates vary by grant agreement.

Recommendation: The Foundation should review and revise its cost allocation methodology as necessary to ensure that support service costs are allocated to programs consistently.

Current Status: Management concurs with the recommendation and will comply in the following manner:

- Develop written procedures for the recordation of indirect cost allocation in accordance to OMB Circular A-122.
- The Foundation will implement a system of indirect cost allocation in accordance with OMB Circular A-122 for the year ending June 30, 2008, by August 15, 2008. Management will monitor and review on a monthly basis for accuracy.

Prior Year Single Audit Finding:

Finding 06-1: Recordation of Financial Activity

Condition: The Foundation did not properly record financial activity. Numerous adjustments were required to properly record revenue, receivables, and expenses.

Internal controls should be in place that provide reasonable assurance that financial activity is properly recorded.

Recommendation: Management should evaluate the current accounting staffing to ensure that sufficient personnel are assigned at the appropriate levels. Also, procedures for recordation of accounting activity should be developed and documented. All accounting department personnel should receive training and be thoroughly familiar with the relevant accounting policies and procedures. Management should also ensure that sufficient supervisory reviews and controls are in place to monitor the financial reporting process.

Prior Year Status: Not a finding in current year's single audit; assumed to be implemented.

Management Letter Comments: None

Prior Year Management Letter Comment:

Comment 1: The Foundation Recorded Revenue Based on Budget

Condition: The Foundation evenly recorded revenue based on the budget throughout the 12-month contract period. Under its contract with the City, revenue is earned based on units of service provided, not to exceed the contractual limit. The Foundation billed the City based on actual units of service provided, which exceeded the contractual limit. However, the over-billing was not paid due to the limitation under the contract.

Recommendation: Management should review billings to ensure that amounts are billed in accordance with the contract provisions. The billed amounts should also be based on actual units of services and should not exceed units of service authorized under the contract.

Current Status: Implemented.

BLACK COALITION ON AIDS, INC.

Black Coalition on AIDS, Inc. is a nonprofit organization which provides information and education regarding the growth and prevention of the spread of AIDS among multicultural populations; operates housing facilities for homeless persons who are HIV positive; provides training to community workers who wish to specialize in AIDS prevention; and advocates for increase services and funding for AIDS related causes.

Total Amount Received From the City in FY 2007-08: $852,339

Federal Funds Received From Public Health in FY 2007-08: $107,498

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments: None

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CALIFORNIA FAMILY HEALTH COUNCIL, INC.

California Family Health Council, Inc. (CFHC) was established in July 1997 as the result of the business combination of the Los Angeles Regional Family Planning Council (LARFPC) and the California Family Planning Council (CFPC). As a single, statewide organization, CFHC administers funding for healthcare providers and is dedicated to expanding and strengthening alliances; invigorating provider networks to increase capacity and expand access for all; creating services and products which advance strategic solution in the changing healthcare environment; identifying, securing, and distributing public and private funds; and serving as an active voice for sexual and reproductive healthcare for women and men. CFHC's mission is "to create healthy individuals, families, and communities" through partnership building, alliances, and a commitment to operational excellence.

Total Amount Received From the City in FY 2007-08: $13,722

Federal Funds Received From Public Health in FY 2007-08: $9,990

Single Audit Reviewed: Fiscal year ended December 31, 2007

Single Audit Findings:

Finding 07-1: Cash Management

Condition: CFHC identified certain Title X funding that was requested prior to the disbursement of program costs. Cumulatively over the past three year period, 2.5% of cumulative Title X awards or approximately $1.76 million in funding was requested prior to program cost disbursements. Although cash advances are allowed under this grant, the monies should be associated with allowable Federal expenses within a reasonable time. Thus, CFHC did not minimize the time between the drawdown and their disbursement of program costs. This represents a material weakness in internal control over financial reporting and federal award compliance as well as noncompliance with federal award guidelines required to be reported under Government Auditing Standards.

Recommendation: CFHC should ensure the requested fund amount is based on the actual Title X expenditures to be incurred and paid. In addition, CFHC should reconcile the requested fund amount to the grant income on a regular basis.

Current Status: Procedures are in place to reconcile grant funds drawn to expended billable costs on a regular and consistent basis as well as supervised and reviewed by management as recommended. Approximately 50% of the amounts overdrawn have been repaid, with the balance to be repaid by December 31, 2008, as arranged with the Office of Public Health and Science, Region IX.

Finding 07-2: Grant Income Recognition

Condition: CFHC recognized unconditional contributions from certain grants as deferred revenue. This accounting practice does not comply with generally accepted accounting principles. This resulted in an audit adjustment of approximately $1.4 million in the current year that was significant to the financial statements, and represents a significant deficiency in internal control over financial reporting.

Recommendation: CFHC should recognize the contribution grant revenue under SFAS 116 and record the release of each contribution from temporarily restricted net assets to unrestricted net assets as performance is completed in accordance with each grant contract.

Current Status: Grant revenue and release of each contribution from temporarily restricted net assets have been recorded in accordance with SFAS 116 for the year under audit. Accounting practices are changed to recorded future temporarily restricted grants in accordance with SFAS 116 as recommended.

Finding 07-3: Journal Entries

Condition: The supervision and periodic review of procedures currently in place serve as compensating controls toward the segregation of duties and should be continued. However, during the auditors' journal entries testing, certain non-standard journal entries prepared by the Controller were posted in the accounting system without evidence of supervisory approval. This represents a significant deficiency in internal control over financial reporting.

Recommendation: CFHC should have supervisory personnel document review and approval on all non-standard journal entries posted by accounting personnel, including the Controller.

Current Status: Evidence of review and approval of non-standard journal entries have been implemented and are in practice as recommended.

Finding 07-4: Accounts Payable Cutoff

Condition: CFHC accrued payables for goods or services which have not all been received at year end. This represents a significant deficiency in internal control over financial reporting for those selected items that should not be accrued.

Recommendation: CFHC should record payables based on the goods and services receiving date for all items to comply with generally accepted accounting principles.

Current Status: Proper year-end cutoff of accounts payable and expense accruals have been implemented as recommended. Costs were properly adjusted and recorded for the year under audit.

Finding 07-5: Estimation on State Unemployment Insurance Liability

Condition: CFHC over-accrued the state unemployment insurance (SUI) liability at year end by applying an overstated estimation rate. This represents a significant deficiency in internal control over financial reporting.

Recommendation: CFHC should review the historical experience of SUI payments in determining the accrual rate for SUI liability.

Current Status: Procedures are in place to review historical unemployment insurance claims and improve estimates of expectant unemployment claims to properly determine future unemployment obligations as recommended.

Finding 07-6: Allowance for Doubtful Accounts – VEBA Trust Receivables

Condition: The reserve on VEBA Trust receivables was understated based on the prior history of VEBA's collectability. CFHC had written off $146,000 during 2007 which was $33,000 more than the original reserve at the beginning of the year. The receivables written off were subsequently recorded as a prior period adjustment during the audit. This represents a significant deficiency in internal control over financial reporting.

Recommendation: CFHC should calculate a sufficient reserve based on historical collection experience.

Current Status: Procedures are in place to tighten monitoring of outstanding receivables to reduce the likeliness of uncollectability as well as provide sufficient reserve for allowance for doubtful accounts for the VEBA Trust receivables.

Finding 07-7: Accounts Receivable Processing

Condition: Monthly invoices to the government agencies and two unapplied cash receipts were not processed in a timely manner. This represents significant deficiencies over financial reporting.

Recommendation: CFHC should set a deadline for month end closing including the processing of monthly invoices. For any unknown collections, CFHC should follow-up/contact the grantor more rigorously to determine the nature of the collection.

Current Status: Procedures are in place to ensure timely processing of monthly billings and application and follow-up of cash receipts as recommended. All billings and cash receipts have been properly processed since issuance of the audit report.

Finding 07-8: Family Planning Service CFDA# 93.217 – Cash Management

Condition: As detailed in Finding 07-1, this also relates directly to CFHC's administration of its Title X federal award. See Finding 07-1.

Recommendation: See Finding 07-1.

Current Status: See Finding 07-1.

Prior Year Single Audit Finding:

PY Finding 06-1: Reporting

Condition: Accrued costs of $50,000 as of December 31, 2006 were based on estimates, not documented, and misstated the costs reported in CFHC's Financial Status Report.

Recommendation: CFHC should ensure that costs charged to programs and reported to the granting agency represent actual and not estimated costs. It should make the necessary corrections to the amount reported.

Prior Year Status: Procedures were implemented following this finding for the 2006 audit to accrue costs based on actual information and not based on estimates. Amended FSR's have been submitted to properly reflect accruals based on actual information.

Management Letter Comments:

Comment 1: In-kind Donations

Condition: CFHC did not record in-kind legal expenses as CFHC does not monitor professional in-kind services received during the year.

Recommendation: CFHC should monitor and record all professional in-kind services and in-kind donations received during the year in order to comply with generally accepted accounting principles.

Current Status: Management will implement procedures to monitor and record all in-kind professional services and donations.

Comment 2: Cash Disbursement

Condition: CFHC pre-prints authorized signatures on checks. Checks amounting to less that $5,000 do not require a second signature. Consequently, this creates exposure to unauthorized cash disbursement.

Recommendation: CFHC should not pre-print authorized signatures on the checks in order to eliminate unauthorized cash disbursements.

Current Status: All checks printed are reviewed and approved by management before they are mailed. To strengthen internal controls over possible unauthorized cash disbursements, CFHC will remove the signature facsimile from being printed on the checks when they are issued.

Comment 3: Legal Expense General Ledger Account

Condition: CFHC does not have a separate legal expense general ledger account to track all the legal expenses incurred during the year.

Recommendation: CFHC should set up a separate expense account for legal or professional expenses.

Current Status: CFHC has created a separate expense account for professional expenses to record legal expenses beginning in year 2008.

Comment 4: Stale Outstanding Checks

Condition: CFHC does not restore or cancel the outstanding checks aged over 180 days.

Recommendation: CFHC should follow-up on the old outstanding checks periodically and should take necessary action either to cancel or to restore the old outstanding checks.

Current Status: CFHC has begun to research old outstanding checks and to take appropriate action to clear the items and will continue the review of these checks periodically.

Comment 5: Bank Account

Condition: CFHC has a bank account name different from its own name. It is named “Education Programs Associates Inc.”, instead of California Family Health Council, Inc.

Recommendation: CFHC should change this bank account name to be the same name as its other bank account. This will reduce the potential fraud risks associated with differently named bank accounts.

Current Status: CFHC will change the bank account name to its corporate name.

Comment 6: Other Revenue – Voluntary Employee Beneficiary Association (VEBA)

Condition: Voluntary Employee Beneficiary Association (VEBA) service fee charges were recorded without proper consideration of collectability. Collectability is one of the four main criteria in revenue recognition.

Recommendation: CFHC should consider the collectability factor when recognizing VEBA revenue. It would prevent significant write-off in the future and allow for more appropriate revenue recognition.

Current Status: CFHC has implemented the following new procedures to minimize write-off of VEBA receivables:

- Beginning in 2007, CFHC routinely reviews VEBA's receivables and billings to reduce the risk of bad debt write-offs from its members, which will in turn improve the collectability of those VEBA receivables
- CFHC reviews collectability of VEBA receivables to determine appropriate VEBA revenue recognition.

Comment 7: Invoice Numbering System

Condition: CFHC has an inconsistent invoice numbering system due to turnover within the accounting department.

Recommendation: CFHC should assign invoice numbers in a consistent method. This would prevent duplication of invoice numbers and confusion.

Current Status: CFHC will review its current invoice numbering system to develop a more consistent numbering system to avoid possible duplication of invoice numbers.

Comment 8: Executive Usage of Credit Card

Condition: Credit card charges used by the executives did not have proper approval procedures in place. Although the credit card statements were reviewed by the executives when the credit card statements were paid, there was no independent reviewer on the executives' credit card usages.

Recommendation: CFHC should implement an approval procedure to review executives' credit card charges prior to entry into the accounting system.

Current Status: CFHC has implemented a new approval procedure to review executives' credit card charges prior to entry into the accounting system.

Comment 9: IT User Administration

Condition: User administration for CFHC's financial application, MAS 200, is managed by the Controller. The Controller has full administration rights as well as approval rights in the system.

Recommendation: The User administration for MAS 200 should be managed by the IT department.

Current Status: CFHC will implement a change in user access security administration to the IT department.

Comment 10: IT Change Control

Condition: CFHC implemented IT changes without testing them in separate environment.

Recommendation: CFHC should require that all changes, including infrastructure IT changes, be tested in the test environment before implementation.

Current Status: CFHC has implemented changes in its IT procedures to require IT changes be tested in a test environment before implementation.

Comment 11: IT Passwords

Condition: CFHC's network passwords have a minimum length of four and complexity is not required. In addition, the network passwords are not required to be complex, do not expire, have no password history, and no maximum retries. The financial application, MAS 200, also has weak password requirements.

Recommendation: CFHC should strengthen their passwords to satisfy the following minimum parameters:

- A minimum of six (6) characters
- The inclusion of letters, numbers, and non-alphanumeric characters
- The expiration of passwords at least every ninety (90) days
- User lockout after three (3) invalid login attempts
- A password memory of at least five (5) generations

Current Status: CFHC will implement new procedures to its network and MAS 200 password requirements as recommended.

Comment 12: IT Physical Security

Condition: CFHC's servers and network equipment at the main facility are located in a server room with inadequate environmental controls. Furthermore, their servers in the satellite offices are not secured in separate rooms. CFHC is in the process of removing the servers from the satellite locations and moving critical servers to Quest, a secure hosting facility.

Recommendation: CFHC should continue their effort to move all IT equipment to

secure and environmentally controlled environments.

Current Status: CFHC's current changes to the satellite office for a more secured location will be completed shortly. CFHC will evaluate the cost and feasibility of implementing changes to the main facility as recommended.

CENTER FOR HUMAN DEVELOPMENT

Center for Human Development (CHD) is a California nonprofit corporation founded in 1972 dedicated to creating opportunities for people to realize their full potential. CHD operates four facilities in the greater San Francisco Bay Area and offers a spectrum of services for at-risk youth, individuals, families, and communities. The agency's staff and several hundred volunteers create and deliver programs and services addressing wellness, youth leadership conflict resolution, parenting skills, and other challenges facing the community.

CHD services Contra Costa, San Francisco, and Alameda counties and provides the following programs:

- Parent Educator Program
- Friday Night Live and Club Live
- Youth Striving for Excellence
- Project SUCCESS
- LGBTQ
- North Richmond Community Services
- Conflict Resolution Programs
- Training Center
- Bay Point Creating Lasting Family Connections
- Bay Point Partnership

Total Amount Received From the City in FY 2007-08: $147,861

Federal Funds Received From Public Health in FY 2007-08: $140,815

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments:

Comment 1: Audit Committee

Condition: CHD does not have an audit committee. This was also a prior management letter comment.

Recommendation: Create an audit committee.

Current Status: Both CHD's Board and management staff recognized the value of an audit committee. The Board had not acted on the same recommendation from the prior audit year due to changes within the composition of both the Board and management staff (Fiscal Director).

Beginning in late spring 2008 and through fall 2008, the Board added several new members and began formalizing committees which had been inactive. On October 28, 2008, the Board formed a finance/audit committee currently comprised of two members. One is a finance director with a behavioral health services business and the other is a partner with an accounting firm specializing in municipal and nonprofit audits. They will seek to add at least one more member to the committee.

Comment 2: Money Market Account

Condition: There was no documentation of the Board's approval for closing and opening of a new money market account.

Recommendation: Board of Directors should approve the opening and closing of all bank accounts and document such approval in the minutes.

Current Status: The Board has directed management to seek Board approval for closing and opening all bank accounts. This policy has been put into place. No accounts have been opened or closed since April 3, 2007, which is one year prior to meeting with the auditor.

Comment 3: Credit Card Balance

Condition: The Organization carries a balance on the agency's credit card and is being charged a substantial rate of interest. In addition, the credit card payments are being paid late and late fees are being incurred.

Recommendation: Pay off the credit card or transfer the balance to a credit card with a lower rate of interest.

Current Status: The agency formerly had three credit cards for management and now only carries one. During a time of staff transition two years ago (time period for the audit FY 06-07), the agency had a temporary Fiscal Director. This staff transition led to some late billings and the credit card was used to help with slow cash flow. Management monitors the credit card usage closely and sees that it is used on a limited basis. Management also has a system in place for paying the credit card on time each month so as to avoid late fees. The current Fiscal Director is investigating a card with a better rate.

Comment 4: Audit Delay

Condition: The current year audit did not commence on a timely basis. This led to potentially missing required audit deadlines for government grants.

Recommendation: Future audit should be performed more timely.

Current Status: Both CHD's Board and management acknowledge the delay of the 06-07 audit which was due primarily to unforeseen turnover in the position of the Fiscal Director. The Board engaged a new audit firm for the 07-08 audit and the work is on track.

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CHINATOWN COMMUNITY DEVELOPMENT CENTER

Chinatown Community Development Center (CCDC) is a nonprofit public benefit organization incorporated in California in 1978. CCDC serves the Chinatown, North Beach, and Tenderloin areas of San Francisco, and its main purpose is to improve the quality of housing for the low-income, elderly, and families of San Francisco. CCDC receives a substantial amount of its support from government grants/loans and private foundations. A significant reduction in the level of this support, if this were to occur, will have an adverse effect on CCDC's programs and activities.

Total Amount Received From the City in FY 2007-08: $1,855,661

Federal Funds Received From Public Health in FY 2007-08: $17,009

Single Audit Reviewed: Fiscal year ended December 31, 2007

Single Audit Findings: None

Management Letter Comments:

Comment 1: Loan Extensions

Condition: The following City CHRP/DPRLP loans for the respective entities have matured and no extensions have been received yet:

- Swiss American - $1,040,214 expired on 6/7/2005
- Clayton (657 Clay) - $334,604 expired on 6/16/1999
- Tower - $645,286 expired in 3/2005
- St. Claire (585 Geary) - $510,000 expired on 10/8/2006
- Consorcia - $100,000 expired on 3/5/2007

Recommendation: Not indicated. There is a general recommendation at the end of the management letter states that management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status: All loan extensions have been submitted for renewal. The City has acknowledged CCDC's requests and has indicated their intent to renew, however, because of an uncertainty by the City as to how these loans will be handled in the future, they have postponed any extension approvals at this time. CCDC is working with the Mayor's Office of Housing to determine the best way to extend the loans without adding more debt to the project. Anticipated resolution date is the end of 2008.

Comment 2: Refundable Property Tax

Condition: The following refundable property taxes are still outstanding:

- I - Hotel - $4,700 for 2006 and $10,000 for 2007. The 2007 payment was for the land which should have been paid by the Archdiocese.
- 1150 Grant (Wells Fargo Building) - $17,000 for 2006 and $8,000 for 2007.
- Namiki - $10,000 for fiscal year 02/03.

Recommendation: Not indicated. There is a general recommendation at the of the management letter states that management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status:

- I - Hotel - The request for property tax refunds for 2006 and 2007 will be submitted in 2008.
- 1150 Grant - The property tax refund was received in 2008.
- Namiki - The property tax refund for 2003 will be requested in 2008.

Comment 3: Payroll Taxes Refund

Condition: William Penn made $1,310 prepayment for 2005 San Francisco payroll taxes and was entitled to a refund since the actual tax for 2005 was less than the prepayment threshold. The refund has not yet been received.

Recommendation: Not indicated. There is a general recommendation at the of the management letter states that management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status: A formal request for the payroll tax refund was submitted to the City in March of 2008.

Comment 4: International Hotel Unpaid Construction Costs

Condition: International Hotel has been in service since November 2005. As of December 31, 2007, there were approximately $163,000 in construction costs and $232,000 in advances from CCDC that remained unpaid.

Recommendation: Not indicated. There is a general recommendation at the of the management letter states that management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status: A consultant was hired in 2008 to reconcile construction costs and complete the paperwork necessary to close out the project and reimburse CCDC for construction cost advances. Anticipated completion date is the end of 2008.

Comment 5: Surplus Cash for HUD Projects

Condition:

- Bayside - There is $33,378 surplus cash for 2007, which needs to be deposited into its residual receipts account.
- I - Hotel - There is $2,178 surplus cash for 2006 and $53,217 for 2007 that need to be deposited into its residual receipts account.

Recommendation: Surplus cash needs to be deposited into its residual receipts account. Management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status:

- Bayside - A residual receipts account was set up in June 2008.
- I - Hotel - A residual receipts account was set up in April 2008.

Comment 6: San Francisco Business Registration

Condition:

- I - Hotel - Has not registered with the City for its business license.
- Broadway Family Apartments - Is beginning operations and registration for business license should be done as soon as possible.

Recommendation: Registration for business licenses for these two locations should be done as soon as possible. Management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status:

- I - Hotel - Staff will be filing for a business license in the third quarter of 2008
- Broadway Family Apartments - Staff will be filing for a business license in the third quarter of 2008.

Comment 7: Findings on Cash Disbursement Testing

Condition: The auditors sampled 60 disbursements for testing and they found:

- Three invoices were approved for payment by individuals whose approval authorities are less than the invoice amount.
- One invoice (reimbursement for dependent care) did not have proper approval for payment.

- Two purchases of supplies did not have receiving documents, which are required by company policy.

Recommendation: Management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status: CCDC's staff will be updating the Fiscal and Procedures Manual in 2008. In doing so, systems will be re-evaluated and revised to ensure tighter controls over cash disbursements and that staff are properly trained on approval processes.

Comment 8: Findings on Payroll Testing

Condition: The auditors' testing sample included 20 employees and two pay periods.

The auditors found:

- Two incidents where the monthly salary was changed from the approved Personnel Action Form (PAF) for salary adjustment with no updated PAF.
- A tour guide who worked for two weeks was paid without a PAF.
- The hourly rate on the PAF for one employee did not agree to the rate on the offer letter (offer letter rate used for actual pay).
- One PAF has $7.50 per hour; actual pay was adjusted to $8.00 per hour to comply with minimum wage requirement but no new PAF was prepared.
- One PAF form could not be located.
- The PAF form requires the employee's signature and four to five other approval signatures. Many signatures were dated way after the effective date of the PAF.
- The PAF designated a maintenance employee as 100% for Notre Dame; however, the employee actually divided his time among different projects.
- A timesheet of a program employee did not have a supervisor approval signature.
- One staff in the HR department prepares the salary adjustment and also initiates the change in the Ceridian (Payroll) system. There seems to be a lack of crosschecking of her work. If she made a mistake in the Ceridian system, it may not be caught on a timely basis.

Recommendation: Not indicated. There is a general recommendation at the of the management letter states that management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status:

- In some cases, a correction to the staff salaries occurred and the PAF reflected the final salary; however, the auditors did not match the correct salary with the PAF in all cases.
- The current system of PAF processing requires 5 or 6 staff signatures. PAF's are often delayed or even lost due to the routing of PAF's for signature. The law requires

that employees be paid promptly regardless of whether the internal paperwork is completed or not. The HR department will review the PAF and the procedures around processing the form to see where changes can be made that would ensure accuracy, timeliness and prevent loss.

- The Payroll Accountant will be more diligent in reviewing all time sheets to ensure that they all contain supervisor approvals.
- Although the HR staff who prepares the salary adjustment also initiates the changes in the system, they are reviewed by both the HR Manager and the Payroll Accountant. In the future, staff will maintain documentation of this review.

Comment 9: Income Recertification Compliance

Condition: The following are noncompliances that the auditors found based on their sample testing of the tenant files that need particular attention:

- Namiki - Unit 201 and Unit 210, the term on both initial leases was less than 6 months. To qualify for low-income housing tax credit, the initial lease needs to be at least 6 months for non-SROs.
- William Penn - Unit 220 was missing 2007 income re-certification.
- Cambridge - Unit 509 was missing 2007 income re-certification.
- Hamlin - No income re-certification for existing tenants was done for the whole project in 2007.
- Swiss American - There was no unit inspection done for the whole project in 2007. There is one family occupying two adjacent units (318 and 320). Since these are two separate units, separate income certification is required. However, a combined income certification was done at move-in in 2007.

Recommendation: Not indicated. There is a general recommendation at the of the management letter states that management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status:

- Namiki -The leases have been corrected to reflect a 1-year lease. Residents of the above units signed the corrected leases.
- William Penn - The 2007 re-certification was in the file. The manager put the wrong date on the TIC. The resident signed the corrected TIC when she returned from vacation.
- Cambridge - The manager did not certify the resident. The resident is being re-certified for 2008. The manager has requested that the tenant bring his 2007 income information to the office. The 2007 re-certification will be completed along with the 2008 re-certification. *Note, the resident was re-certified by the SFHA during 2007.
- Hamlin - There was a change of property supervisor and manager for this project during this period. The assistant manager was responsible for the re-certifications. The assistant manager failed to do the work and was removed from the project and

the organization. The 2007 re-certification will be done concurrently with the 2008 re-certifications. *Note, almost half of the residents were re-certified by the SFHA.

- Swiss American - The manager has separated the income certification and had both units sign an individual lease and income certification.

Comment 10: Uninsured Cash Balance

Condition: Cash in banks are insured by FDIC for up to $100,000 per bank, and accounts in brokerage firms are insured by SIPC for up to $500,000. The following is a recap of amounts that exceeded the insured limits by each entity at December 31, 2007:

	Bank	Brokerage
Tower (Wells Fargo)	$ 36,000	$ -
Bayside (Wells Fargo)	74,000	-
Bayside (B of A)	2,000	-
Hamlin (Wells Fargo)	274,000	-
William Penn	69,000	-
Larkin Pine (Wells Fargo)	603,000	-
Golden Gate (Wells Fargo)	287,000	-
Golden Gate (B of A)	5,000	-
Notre Dame (Wells Fargo)	1,841,000	-
Namiki (Wells Fargo)	464,000	-
201 Turk (Wells Fargo)	990,000	-
201 Turk (Citibank)	399,000	-
Broadway (Wells Fargo)	51,000	-
CCDC:		
Wells Fargo Bank	2,351,000	
Wells Fargo Investment	-	248,000
Total	$ 7,446,000	$ 248,000

Recommendation: Not indicated. There is a general recommendation at the of the management letter states that management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status: CCDC staff is working with CCDC's existing primary bank to set up a system for CD placement so that they can place CD's with other (sister) banking institutions in order to stay within FDIC insured limits. Anticipated completion date is third quarter of 2008.

Comment 11: Reserve Accounts

The following summarizes the under-funding of the required reserves in 2007:

	Replacement Reserve			Operating Reserve		
	Required	Funded	Under-funded	Required	Funded	Under-funded
Cambridge	$ 13,419	$ -	$ 13,419	$ 8,946	$ -	$ 8,946
William Penn (b)	9,875	-	9,875	10,174	-	10,174
Hamlin	13,380	-	13,380	8,744	-	8,744
Tower	4,150	1,968	2,182	2,766	2,560	206
GGA	48,578	47,040	1,538	11,045 (a)	3,077	7,968
Consorcia	5,017	4,911	106	4,835	3,249	1,586
657 Clay (Clayton)	12,000	7,374	4,626	8,554	-	8,554
657 Clay	10,000	7,500	2,500	3,119	-	3,119

(a): Based on LP agreement.

(b): William Penn has $17,519 in cash flow and should make the deposit into the reserves.

Recommendation: Not indicated. There is a general recommendation at the of the management letter states that management should take actions to prevent recurrence and set up procedures to resolve the issues.

Current Status: In some cases, there was not adequate cash flow to fund the operating and/or replacement reserves.

Comment 12: Tower Dissolution

Condition: The term on the partnership agreement of Tower Hotel Partners, Ltd. stated that the partnership shall continue until December 31, 2007, or earlier upon dissolution. As of December 31, 2007, the limited partners each has over $543,000 deficit in the capital account on tax basis. The dissolution of the partnership would require the limited partners to report an amount to make-up for their negative capital account; depending on the limited partners' own personal situation, there could be a serious tax implication.

It is to the auditors' understanding that limited contact has been made with the limited partners and no concrete plan and action have been taken.

Recommendation: If the partnership is to continue, a new partnership agreement should be drawn and the terms of the agreement should clarify profit/loss allocation, capital contributions, and compliance with current tax code.

Current Status: CCDC is currently working with the limited partners to purchase the Tower Hotel. The partnership is on a year-to-year basis until a settlement can be reached. Estimated timeframe for the buy-out is the end of 2008.

Comment 13: End of 15 Years of Tax Credit Projects

Condition:

- 201 Turk - 201 Turk is in its last year of the 15-year compliance period. Negotiation is in process with the limited partners for their exit of the partnership.
- Larkin Pine - Larkin Pine's 15-year compliance period ends in 2009. At December 31,

2007, the tax basis capital account balance of the limited partner was $80,711. It is estimated that the limited partner's capital account would range from negative $350 to $450,000 at the end of 2009.

Recommendation: Management should start planning the exit strategy.

Current Status:

- 201 Turk - CCDC is in negotiation with all three investors at the present time. Each investor has agreed to base the negotiations using the debt balance as of December 31, 2007. In this way, despite how long negotiations may take, the debt to the investor will not increase beyond what it was at that point in time. CCDC has further requested that each investor forgive any debts owed by the partnership, which they are currently considering.
- Larkin Pine - CCDC has engaged a consultant to assist with the buy-out plan. Once they have more information regarding a buy-out cost, they will contact the limited partner to begin negotiations. Estimated timeframe for both buy-out plans is end of 2008.

COMMUNITY AWARENESS AND TREATMENT SERVICES, INC.

Community Awareness and Treatment Services, Inc. (CATS) was incorporated in 1983 as a Nonprofit Public Benefit Corporation. CATS receives the majority of its funding through grants from the City and County of San Francisco. CATS provides the following prevention, education, treatment and rehabilitation programs for persons affected by alcohol and other substances:

- Mobile Assistance Patrol
- A Woman's Place (Howard Street Project)
- Golden Gate for Seniors
- Redwood Center
- McMillan Drop-In Center
- Eddy Street Project
- Coronado Hotel
- Homeless Outreach Team (HOT)
- Medical Respite Program

Total Amount Received From the City in FY 2007-08: $7,284,329

Federal Funds Received From Public Health in FY 2007-08: $550,000

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments:

Comment 1: Operating and Replacement Reserve Accounts

Condition: The loan agreements for the Eddy and Howard Street Projects with the City and County of San Francisco (CCSF) require CATS to make periodic deposits into the operating and replacement reserve accounts. CATS is required to deposit 3 percent of each project's income into the respective operating reserve accounts. CATS is also required to deposit 2 percent (for Eddy) and 2.5 percent (for Howard) of the project's income into the respective replacement reserve accounts. In the prior year, CATS submitted a plan to CCSF to resume funding the reserves for both buildings. In this regard, at June 30, 2007, there was approximately $9,000 in both the Eddy and Howard Replacement Reserve accounts as well as in the Howard Operating Reserve account. However, the Eddy Street Project Operating Reserve is still not maintained.

Recommendation: CATS should continue on its progress to establish and maintain the required deposits as noted in the plan submitted to CCSF.

Current Status: A bank account was opened for the Eddy Street Project Operating Reserve Account and the required deposit was made in FY 2007-08.

Comment 2: Reporting

Condition: The Annual Progress Report (APR) was filed a month late. The APR is required to be filed within 90 days after the end of the year.

Recommendation: CATS should strengthen its policy to file required reports on time.

Current Status: Annual Progress Report for the Supportive Housing Program was filed on time for FY 2007-08.

Comment 3: Rent Income

Condition: At the Eddy Street Project, the tenant rent income is recorded on a cash basis. Consequently, no accounts receivable was recorded.

Recommendation: CATS should record tenant rent on an accrual basis and record any accounts receivable to facilitate collections and reporting to management.

Current Status: Since 50% of CATS' rental income is normally received by the 3rd of each month from Section 8, and their clients at the Eddy Street Project pay their rent by the 10th of each month, the receivable at the end of each month is very minor/immaterial. CATS booked $300 for rent receivable at the end of FY 2007-08.

Prior Year Management Letter Comments:

PY Comment 1: Payroll

Condition: There was a significant difference between the payroll register and the general ledger balances for payroll expense. Consequently, the auditors and CATS staff had to spend a significant amount of time during the audit to test/reconcile the payroll register to the general ledger.

Recommendation: Payroll register should be reconciled to the general ledger as part of the monthly accounting close. Payroll tax returns should also be reconciled to the general ledger when filed.

Current Status: Not noted as a comment in current year's management letter; assumed to be implemented.

PY Comment 2: Fixed Assets

Conditions: The auditors found that the fixed asset subsidiary ledger was not properly maintained during the year. The ledger included:

- Items below CATS's $1,000 capitalization policy
- Incorrect calculation of depreciation in some cases
- Beginning accumulated depreciation balances that did not agree to the ending balance of the prior year schedule.

Consequently, the auditors and CATS's staff spent a significant amount of time during the audit to test and reconcile the subsidiary ledger. Further, CATS capitalization policy was reduced from $5,000 to $1,000 during the current fiscal year. However, although properly approved, CATS did not document the policy. This was also a prior management letter comment.

Recommendation: CATS should update the fixed asset subsidiary ledger and reconcile to the general ledger as part of the monthly accounting close. CATS should also document any new capitalization policy, such as in the Board of Director's or Finance Committee meeting minutes.

Current Status: Not noted as a comment in current year's management letter; assumed to be implemented.

PY Comment 3: Old Outstanding Checks

Condition: CATS has made a significant improvement in reconciling and resolving old outstanding checks during the FY 2006-07. However, the auditors still noted thirteen outstanding checks totaling $10,144 that were more than a year old. This was also a prior management letter comment.

Recommendation: CATS should research whether to re-issue or write off these checks.

Current Status: Not noted as a comment in current year's management letter; assumed to be implemented.

PY Comment 4: Operating and Replacement Reserve Accounts

Condition: The loan agreements for the Eddy and Howard Street Projects with the City and County of San Francisco (CCSF) require CATS to make periodic deposits into the operating and replacement reserve accounts. It is required to deposit 3 percent of each project's income into the respective operating reserve accounts. CATS is also required to deposit 2 percent (for Eddy) and 2.5 percent (for Howard) of the project's income into the respective replacement reserve accounts. The auditors found that no operating or replacement reserve deposits were made during the fiscal

year 2005. However, CATS has obtained a one-year waiver from CCSF for the Eddy Street Project and has submitted a plan to resume funding the reserves for both buildings. This was also a prior management letter finding.

Recommendation: CATS should make the required deposits as noted in the plan submitted to CCSF.

Current Status: Implemented. See FY 2007-08 Comment 1.

PY Comment 5: Held Checks

Condition: During the test of cash, the auditors noted that CATS did not mail thirty checks totaling $69,708 at year end. This amount has been properly re-classed to accounts payable in the audit report. Held checks are susceptible to misappropriation and expose CATS to loss.

Recommendation: CATS should issue checks only when sufficient funds are available and the checks can be mailed.

Current Status: According to management, the Director of Finance has already initiated a policy not to cut and hold checks as of July 1, 2006. CATS currently cuts and immediately mails checks to vendors.

COUNTY OF MARIN AIDS OFFICE

The HIV/AIDS Services program performs a comprehensive array of public health activities related to HIV and Hepatitis C disease in Marin County. These activities include prevention efforts, testing, providing necessary drugs, provision of medical, social and mental health services, and documenting the number of Marin residents diagnosed with AIDS. The Specialty clinic offers primary medical care and associated services to HIV positive individuals, consultative medical services for individuals with Hepatitis C, and the opportunity to participate in clinical drug trials. The HIV/AIDS program also oversees the delivery of HIV and Hepatitis C related services provided by other agencies in the community. The following single audit findings reflect findings for the County of Marin as a whole.

Total Amount Received From the City in FY 2007-08: $677,137

Federal Funds Received From Public Health in FY 2007-08: $677,137

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: Not available; Single Audit Report not provided.

Prior Year Single Audit Findings:

PY Finding 06-1: Eligibility/Special Tests Documentation (TANF)

Condition: Of the 24 Temporary Assistance for Needy Families (TANF) case files tested, 3 case files did not have current Income Eligibility and Verification System (IEVS) documents. Social Security Act Sec. 1137 requires that income and benefit information from the IEVS database is requested and used when making eligibility determinations. The County of Marin (County) must review and compare the information from the IEVS against the information in the case record to determine whether it affects the individual's eligibility or level of assistance, benefits or services. According to the auditors, it appears that the County has neglected this compliance requirement in about 12.5% of its cases. This non-use of IEVS in eligibility determination can result in individuals receiving benefits to which they are not entitled.

Recommendation: The County should review this omission to request, review, and compare the IEVS to information in the case record. It should also attempt to determine why the current system of controls failed to prevent these exceptions and that the County attempt to determine why the current system of controls failed to prevent these exceptions and that the County establish and communicate a policy designed to ensure that IEVS information is requested, received, and reviewed and that this review is documented in each case.

Prior Year Status: Management will initiate the following corrective action plan:

- Re-issue instructions to staff about the requirements regarding IEVS request.
- Ensure that IEVS requests are being made by the file clearance unit when "pending" applications.
- Verify that IEVS printouts are in the case record before passing a case to the "continuing" worker.
- Institute a process at re-determination to ensure that IEVS requests are made in ISAWS as part of the re-determination procedure.
- Establish documentation protocols for case records to indicate that IEVS documents were requested and received.

PY Finding 06-2: Eligibility/Special Tests Documentation (Medical Assistance Program)

Condition: Of the 24 Medical case files tested, 8 files did not have current Income Eligibility and Verification System (IEVS) documents, and 1 was not signed by an eligibility worker. Social Security Act Sec. 1137 requires income and benefit information from the IEVS database must be requested and used when making eligibility determinations. The County must review and compare the information from the IEVS against the information in the case record to determine whether it affects the individuals' eligibility or level of assistance, benefits or services. According to the auditors, it appears that the County has neglected this compliance requirement in about 37.5% of its cases. This non-use of IEVS in eligibility determination can result in individuals receiving benefits to which they are not entitled.

Recommendation: The County should review this omission to request, review, and compare the IEVS to information in the case record. It should also attempt to determine why the current system of controls failed to prevent these exceptions and should establish and communicate a policy designed to ensure that IEVS information is requested, received, and reviewed and that the review is documented in each case.

Prior Year Status: Management will initiate the following corrective action plan:

- Re-issue instructions to staff about the requirements regarding IEVS request.
- Ensure that IEVS requests are being made by the File Clearance Unit with "pending" applications.
- Verify that IEVS printouts are in the case record before passing a case to the "continuing" worker.
- Institute a process at re-determination to ensure that IEVS requests are made in ISAWS as part of the re-determination procedure.
- Establish documentation protocols for case records to indicate that IEVS documents were requested and received.

Prior Year Management Letter Comments: None

COUNTY OF SAN MATEO AIDS PROGRAM

The County of San Mateo's (San Mateo) AIDS Program (Program) is the primary provider of HIV prevention and education in San Mateo County. The focus of its work is to reach persons in the county who are most at risk for HIV - men who have sex with men, injection drug users and their sexual partners. These persons are reached and supported in their attempts at risk reduction through point of risk street interventions, group presentations and prevention case management. This program is also the primary provider of HIV antibody testing through its mobile unit and testing on demand. Three (3) contract agencies collaborate with the AIDS Program to accomplish the above tasks. In addition, HIV prevention is also provided to schools through the Positive Prevention Plus Program, which has a cadre of youth volunteers who work in high schools and middle schools, as well as do outreach in areas where youth hang out. Education and in-service training for agencies are also provided upon request. For persons already infected with HIV, the San Mateo County AIDS Program is the primary provider of early intervention and clients services. The following single audit findings and management letter items reflect findings for the County of San Mateo as a whole.

Total Amount Received From the City in FY 2007-08: $1,546,387

Federal Funds Received From Public Health in FY 2007-08: $1,541,549

Single Audit Reviewed: Fiscal year ended June 30, 2007

Current Year Single Audit Findings:

Finding 07-A: Timeliness of Financial Reporting and Material Adjustments

Condition: The effects of the turn-over in two key positions, financial services manager and reimbursement manager, significantly impacted the timeliness and accuracy of the financial reporting process for fiscal year 2007. Specifically, agreed-upon deadlines for audit requests were not consistently met and material audit adjustments were discovered and proposed. During the audit, the auditors noted that many of the expense balances on the Statement of Changes in Net Assets were not appropriately consolidated from the general ledger, resulting in inconsistent reporting with prior year expenses. Upon discovery, Medical Center staff reviewed the consolidation and made the appropriate adjustments, accordingly, the audit was delayed for two weeks.

Four material adjustments were subsequently corrected by management in the financial statements. These adjustments are described below:

- Overstatements of cash and payable to San Mateo - $20,166,735. See item 2007-B.

- Overstatement of non-operating revenues, State and Federal grants and other, and due from other governments receivable - $4,000,000. The expected return of the intergovernmental transfer paid to the Health Plan of San Mateo was recorded twice in the financial statements.
- Overstatement of due to other governmental agencies and contractual allowances - $1,837,805. To reduce reserves related to the FQHC cost reports for fiscal year 2002 and 2003 as these were settled by June 30, 2007 with no pending liabilities.
- Understatement of patient accounts receivable, net of allowances and contractual allowances - $1,790,173. During the year the Medical Center changed its methodology for calculating and recording contractual allowances. This change was not applied to the year-end analysis of the patient financial classification "Undetermined."

These issues place the Medical Center at risk of having material misstatements go undetected, in addition to creating audit delays and unnecessary additional costs charged to the Medical Center.

Recommendation: Management should review and adapt the year-end closing plan that was developed and implemented for the fiscal year 2006 audit to ensure that all critical and/or material financial statement balances are appropriately analyzed for accurate financial reporting. In addition, the closing plan should include a realistic timeline that is communicated annually to the Controller's Office to ensure that expectations, tasks and deadlines are agreed upon, since the Medical Center directly affects the ability of the Controller's Office to complete San Mateo's overall financial audit. Furthermore, a formal training plan should be developed and implemented for the new financial services manager to ensure that expectations are established, policies and procedures are adequately communicated, and appropriate financial reporting resources are available for use and reference to mitigate material errors and significant delays in the financial reporting process.

Current Status: Management agrees with the recommendation. Staff turnover during the critical year-end process and inexperience with audits largely contributed to the situation. It is hoped that with adequate staff training and better monitoring, management will have a definite improvement in this area.

Finding 07-B: Monitoring of Transactions between Medical Center and San Mateo

Condition: Cash advances to the Medical Center are authorized by the Board of Supervisors. These advances represent an operating line of credit up to $30 million as of July 1, 2006, that is used by the Medical Center during the fiscal year to pay for expenses while awaiting revenue from patients and private insurance companies and reimbursement from the state and federal government.

As part of the year-end closing process, the San Mateo Manager's Office and the Controller's Office identify funds with negative cash balances to transfer excess cash

to cover the cash deficits. This transfer of cash creates short-term interfund receivable and payable balances between the subsidizing and the subsidized funds, respectively. The auditors noted the Medical Center transferred $20.2 million of cash from the General Fund to the Medical Center and recorded a corresponding short-term interfund payable in the "due to other funds" account in August 2006. While the usage of the short-term interfund receivable and payable accounts should occur only at year-end, the journal entry was approved by management at the Medical Center and the Controller's Office. Although Medical Center transferred the cash back to the General Fund as of June 30, 2007 after an audit adjustment was proposed, this incident violated San Mateo's operating policy of not using the "due to/due from" other funds accounts during the year.

Recommendation: San Mateo should monitor the available fiscal reports on a more frequent basis to review the propriety of transactions between the Medical Center and the General Fund. Furthermore, access to the short-term interfund receivable and payable accounts should be restricted during the year to prevent unauthorized transfers of cash using these accounts.

Current Status: Management agrees with the recommendation. The Controller and the Medical Center have implemented both preventive and detective controls. The use of "due to and due from" accounts has been severely curtailed and access to various departmental accounts has been removed. It is believed that these additional fiscal controls and checks and balances will properly prevent and alert system users about such transactions.

Finding 07-C: Burlingame Long-Term Care Patient Trust Activity

Condition: The auditors noted significant control deficiencies in cash handling, the daily cash count, and the reconciliation process related to the patient trust activity.

- There is no segregation of duties between the cash handling, reconciliation, and recording functions. One accountant is responsible for obtaining and cashing checks issued by San Mateo out of the Patient Trust Fund and disbursing and collecting cash to and from patients. The same individual is responsible for reconciling and recording activity in a subsidiary database, which tracks patient trust activity by patient. The disbursement and collection functions are the only duties that are rotated to another employee, which is rare.
- Detailed subsidiary records are not reconciled to the San Mateo General Ledger System.
- The daily cash reconciliation and supporting documentation are not reviewed by a supervisor.
- The subsidiary database is not verified for patient balances prior to disbursement
- Disbursements issued to Social Workers "on-behalf" of patients are not monitored and documentation submitted to support disbursements is not adequately reviewed.
- Pre-numbered receipt booklets are not monitored and reconciled when used.

Recommendation: Management of the Medical Center should analyze current practices over patient trust activity and develop and implement adequate internal controls to ensure that patient assets are protected. These control procedures should include review of the daily cash reconciliation process; independent reconciliation of the subsidiary database to the San Mateo General Ledger System; verification of subsidiary database prior to disbursement to patients; monitoring of "on-behalf" disbursements to social workers; and monitoring of pre-numbered receipt booklets.

Current Status: Management agrees with the recommendation. A process has been developed and is being implemented.

Finding 07-D: Recording of Mortgages Receivable

Condition: San Mateo's mortgage loans are administered by the Department of Housing (Department). The Department tracks disbursements and repayments for deferred loans using a separate loans database and relies on an external loan processing company to manage the Department's amortized loans. Furthermore, the Department is also responsible for calculating the allowance for uncollectible loans. During San Mateo's year-end closing process, the Department submits to the Controller's Office detailed loan schedules to report current year loan activities and the allowance calculation. The Controller's Office uses these detailed schedules to record the mortgages receivable and allowance balances in San Mateo's general ledger for financial reporting purposes.

The Department of Housing has experienced significant turnover in its fiscal unit in recent years. In addition, the Department does not have formal procedures documented to guide staff through the year-end reconciliation and closing process to ensure proper reporting of the mortgage receivables balance. During the audit, the auditors noted that the Department had revised the mortgage receivable balance several times without communicating the revisions to the Controller's Office. The following errors were noted:

- $5.1 million of the START program loans was recorded twice in the financial statements, once in the mortgage receivable balance and again in the other receivables balance.
- $438,000 in START loans recorded in the financial statements should have been reduced based on revisions to the loan schedule.
- $128,000 of State deferred loans were excluded in the schedules submitted to the Controller's Office.
- $5.1 million of accrued interest was excluded in the schedules submitted to the Controller's Office.

The above errors were corrected in the financial statements for fiscal year 2007, resulting in a decrease of $5.1 million in the other receivables balance and an increase of $4.8 million to the gross mortgage receivable balance with a related adjustment of $216,000 to the allowance for uncollectible loans. Auditors also noted

that $1.8 million in other gross mortgage receivables was excluded from the fiscal year 2006 year-end analysis. The Department corrected this issue in fiscal year 2007 by properly including this loan program in their analysis.

Recommendation: The Department should assume the responsibility of initiating and approving adjustments to the mortgage receivable and related allowance balances in San Mateo's general ledger and reconcile them at least annually to its loan database. In addition, the Department should formally document its procedures related to the year-end analysis and financial reporting process to minimize the effects of "lost" knowledge due to turnover.

Current Status: The Department agrees with the recommendations. As stated above, the significant turnover in the fiscal year staff contributed to confusion regarding procedures for reporting certain classes of mortgage loans to the Controller's Office for financial reporting purposes. The errors that resulted from this confusion were corrected on the financial statements for the fiscal year ended 2006-07, and procedures have been rewritten to assure that the errors will not be repeated.

Finding 07-01: Schedule of Expenditures of Federal Awards (SEFA) Completeness

Condition: During the audit, the auditors received 12 different drafts of the SEFA between the period of October 25, 2007, and March 3, 2008. The changes resulted in a net increase to the SEFA of $4.9 million and affected 24 federal programs, 7 of which were selected as major programs for fiscal year 2007. These changes also significantly affected the planning of the audit, including the required risk analysis and determination and the scope of major programs.

Recommendation: The Controller's Office compiles the SEFA based on information provided by the departments, and has been working with San Mateo's Manager's Office to develop a grants manual to provide guidance to grant administrators in San Mateo departments. In addition to completing the grant manual, San Mateo should develop and implement a mandatory single audit training program that is conducted at least annually. The training program should address expectations of the single audit, provide for changes and updates in available resources (e.g. the OMB Circular A-133 Compliance Supplement) and requirements, and review the process to prepare an annual reconciliation of grant expenditures (both claimed and unclaimed) reported in the SEFA to the general ledger, and related revenues and accruals. Furthermore, San Mateo should consider investing in a grant administration application to assist departments in accurately and timely capturing, recording, and monitoring grant activities, to assist the Controller's Office in effectively preparing the SEFA, and to assist San Mateo Manager's Office in monitoring grant activities and related budgets.

Current Status: The management concurs with the recommendations. The Controller's Office will continue working with San Mateo departments to ensure the

timely reporting of all expenditures of federal awards. Further, the Controller's Office will request all departments to submit reconciliations of claimed grant reimbursement to amounts reported in the general ledger and amounts reported for the SEFA, which will be reviewed during the SEFA compilation process. San Mateo Manager's Office is developing a county-wide grants manual to address the recommended areas that should be completed by Fall 2008. Management will explore training options and the feasibility of obtaining a general ledger grant management module to improve the capture of federal grants for the preparation of the SEFA and to satisfy other grant reporting requirements.

Finding 07-02: U.S Department of Housing and Urban Development – HOME Investment Partnerships Program (HOME), CFDA 14.239

Condition: San Mateo did not perform the required inspections on the HOME projects during the fiscal year. Twenty-one HOME projects were subject to the inspection requirement during the current fiscal year.

Recommendation: The Department should evaluate and reinforce existing procedures over housing quality inspections to ensure timely inspections. Adequate controls should include procedures to proactively identify and track inspection due dates, ensuring that on-site inspections are scheduled in advance of the due dates to allow sufficient time for the site reviews. In addition, procedures should be implemented to obtain approved deadline extensions for instances when inspections are expected to be delayed. The approved extensions should be documented within the inspection files to demonstrate compliance with program requirements.

Current Status: FY 2006-07 was a transition year for the Department as staff was involved in a substantial department consolidation involving office moves, boxing of files, offsite storage, and conjoining of staffs. During this distracting process the HOME inspection period passed without proper notice. The majority of the FY 2006-07 inspections have now been completed and remainder will be completed by March 25, 2008. All of the projects with completed inspections have been found to be in compliance.

In prior years, the HOME coordinator notified the Supervisor, who in turn assigned inspections to staff. The HOME inspection schedule has now been electronically calendared so that the Supervisor and all staff are notified in a timely manner. In addition, all inspections are pre-assigned to staff. Inspections will be in accordance with the HOME requirements.

Finding 07-03: U.S Department of Housing and Urban Development – Community Development Block Grants, CDFA 14.218; HOME Investment Partnerships Program (HOME), CFDA 14.239

Condition: San Mateo did not submit the required HUD 60002 reports for the period July 1, 2006, to June 30, 2007.

Recommendation: In additional to periodic communications received from HUD related to changes in compliance requirements, San Mateo should annually review the Compliance Supplement to identify changes in compliance requirements applicable to the grants it administers.

Current Status: The Department of Housing is now aware of the reporting criteria involving HUD 60002 Section 3. The Department has initiated a process whereby the Compliance Supplement will be annually reviewed and subsequent required reporting inclusive of Section 3, will be electronically calendared. The most current report was submitted in January 2008.

Finding 07-04: U.S Department of Health and Human Services – Temporary Assistance to Needy Families (TANF), CFDA 93.558

Condition: Out of three monthly CA 800 FED reports and three months of the statistical reports, two of the monthly CA 800 FED reports and one month of the statistical reports were submitted past the required timeframe. Late submission ranged from 5 to 35 days.

Recommendation: The auditors recognize that the Human Services Agency (HSA) has trained additional staff to assist with the fiscal and statistical reporting process during the fiscal year. The auditors recommend that the HSA continue to provide training and guidance to the additional staff to avoid disruption in daily operations and to ensure timely submissions of required reports. Management should continue to strengthen controls to identify and track report due dates ensuring that required information is readily available for report preparation.

Current Status: Management concurs with the recommendation. San Mateo recognizes that submitting all County claims and statistical reports on time is critical to their business. The overdue submission of the financial reports was due to continuing problems in retrieving accurate information from the CalWIN eligibility determination computer system implemented in October 2005. The overdue submission of statistical reports was due to the unexpected retirement in May 2007 of the employee compiling the reports.

To better ensure the timely completion of the financial reports, management has formed a claiming team to provide cross-trained staff and are working with a consulting firm to automate to the extent possible the very time consuming process of compiling CalWIN data. Management has also trained two staff members in the preparation of the statistical reports and has documented the preparation of the reports so that other staff could compile them if necessary.

Except for one instance in May 2007, the financial reports have been submitted on time since February 2007. The statistical reports have been submitted on time since November 2007. We expect that the cross-training of staff, documentation and

streamlining of procedures, and increased emphasis on identifying and tracking due dates will continue to result in the timely submission of these required financial and statistical reports.

Prior Year Single Audit Findings:

PY Finding 06-A: Internal Control Weaknesses Related to Cash Receipts Process

Condition: The auditors noted several internal control deficiencies related to:

Pharmacy Receipts:

- The cash drawer is not locked and easily accessible to anyone inside the pharmacy.
- Key to the locked box where cash is kept at night is hanging on the wall in plain sight.
- The locked bag of cash awaiting deposit is kept inside an unlocked drawer together with the key to the locked bag.
- Daily Cash balancing/reconciliation is not adequately controlled
  - Balancing not performed daily, but on the day following collection.
  - Shortages are covered by subsequent receipts.
  - Balancing is performed by a single employee with no oversight.
  - In the 9/20/06 cash count observed by the auditors, the drawer was short by $290.

Patient Service Collections:

- Remittance advices from the Health Plan of San Mateo are not included in the cash reconciliation due to a system limitation in the patient accounting system.
- Cash receipts processes at the Burlingame site is outdated and prone to errors. They currently use a manual log to record receipts and there seems to be confusion regarding who "owns" the process.

Recommendation: Management should perform a more extensive internal review and assessment of the Medical Center's cash receipts process. The review should include any major offsite collection points (e.g. Burlingame and other clinic sites). Additionally, procedures at the Cashier's Office should be evaluated and documented. All identified control deficiencies should be documented along with method of remedy or disposition. Results of the review and assessment should be reported to the Board of Directors.

Current Status: During the fiscal year 2007, the Medical Center hired a consultant to review the design and effectiveness of controls over all of the Medical center's cash collection points, except for the Burlingame Patient Trust Account. This report identifies 30 recommendations for management to consider and address to improve

controls over cash collections and is scheduled to be submitted to the Board on January 3, 2008.

PY Finding 06-01: Procurement and Suspension and Debarment

Condition: During the review of internal control over procurement with the suspension and debarment requirement, the auditors noted that the Northern California HIDTA (NC HIDTA) Office and the Sheriff's Office did not retain contract histories such as contractor selection, as required by the OMB Circular A-133. Although San Mateo's contract staff indicated that they checked potential contractors against the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) to verify that the contractors were not suspended or debarred or otherwise excluded when a procurement contract was made, the County did not maintain documentation to support such verification. **Questioned costs: $232,699.**

Recommendation: The NC HIDTA Office and the Purchasing Division should formalize and document procurement policies and procedures for federally funded contracts. Once documented, the policies and procedures should then be approved. During the course of the audit, the auditors noted a number of specific areas that should be addressed by the policies, including: (1) documentation of procurement history, including award rationale; (2) documentation of the suspension and debarment verification before contracts are awarded; and (3) requirements for record retention. NC HIDTA office should also implement policies and procedures to keep track of the expenditures incurred related to each existing contract in order to evaluate whether an amendment will be required.

Prior Year Status: Not noted as a comment in current year's single audit report; assumed to be implemented.

PY Finding 06-02: Financial Status Reports Not Based on Acceptable Accounting Basis

Condition: The auditors noted that program management's quarterly Financial Status Reports (FSR) related to the HIDTA program were not prepared on the cash or the accrual basis. Instead, expenditures were reported in the quarter in which reimbursement was requested in order to match the expenditure amounts in the FSRs and the Payment Management System (PMS). Program management requested clarification from the federal grantor agency on which basis program expenditures should be reported. Program management has stated that they are presently following reporting guidelines established by the National HIDTA Assistance Center (NHAC) located in Miami, Florida. As a result, the federal expenditures reported in the FSRs are not stated in an acceptable accounting basis as prescribed in the report instructions, requiring the reporting of gross program outlays on either a cash or an accrual basis.

Recommendation: Management should review the instructions provided for the FSRs and obtain clarification from the federal grantor agency on which reporting method is acceptable, and assistance in resolving this apparent conflict in reporting regulations and guidelines. Management should also discuss any necessary corrective action for the FSRs that had been submitted for the current fiscal year.

Current Status: Not noted as a comment in current year's single audit report; assumed to be implemented.

PY Finding 06-03: Timeliness and Accuracy of Human Services Agency Reporting

Condition: The Human Services Agency (HSA) implemented the CalWorks Welfare Information System (CalWIN) during October 2005, which significantly increased the workload of department staff, including the time needed for report preparation and additional responsibilities to resolve technical system conversion issue. The auditors tested 7 reports and found that 3 reports were submitted 44 days to 164 days after the due date. In addition, the auditors noted that information on two different items reported was mistakenly transposed, and for 1 of the 3 monthly reports tested, the total value of federal benefit issuances was overstated by $540. Without submitting accurate and timely reports, the County runs the risk of non-compliance with the Federal and State requirements.

Recommendation: HSA should evaluate controls over reporting to ensure timely submissions of required reports, and should include mechanisms to identify and track report due dates ensuring that required information is readily available. Also, procedures should be implemented to obtain approved deadline extensions for instances when reports are expected to be submitted late, and document such approvals for auditor review.

Current Status: Not noted as a comment in current year's single audit report; assumed to be implemented.

PY Finding 06-04: Timely Submission of Certified Payroll

Condition: San Mateo is required to have weekly, a certified payroll from its contractors and subcontractors engaged in federally funded projects within 7 days after the regular payment date of payroll period. 72 of the 169 certified payrolls that the auditors tested were not received within the deadline. In addition, 20 items did not have documentation of a "received date" and the auditors could not verify if they have been submitted timely.

Recommendation: San Mateo should establish procedures to monitor the submission of subcontractors certified payroll statements within the required timeframe. If subcontractors are not compliant with the due dates, San Mateo should withhold the payments until the certified payroll statements are submitted.

Current Status: Not noted as a comment in current year's single audit report; assumed to be implemented.

PY Finding 06-05: Eligibility Documentations

Condition: San Mateo is required to follow program documentation requirements, such as eligibility determinations. During their test of 40 participant files for compliance with such requirements, the auditors found:

- 3 Participants files' Statement of Facts for Cash Aid, Food Stamps, and Medi-Cal/State-run County Medical Services Program (SAWS-2) form were not signed by the eligibility worker to define whether the participant was eligible.
- 1 participant file did not have a complete Quarterly Eligibility Status Report (QR7) form on file. The participant's QR-7 for the month of July 2005 was signed but it was not filled out.
- 3 participants' Eligibility Verification Systems (IEVS) Form on file were not signed, indicating that the eligibility worker reviewed the form and made the appropriate income assessment. Although the required signature was missing from the IEVS Form, the auditors were able to verify compliance with income eligibility for the 3 participant files noted.

Recommendation: With the implementation of CalWIN on October 1, 2005, the State no longer requires San Mateo's HSA to sign IEVS Form or complete the SAW-2 Form because they are captured electronically. With these changes, HSA should continue to evaluate and design effective control procedures over the eligibility determination and re-determination process to ensure that eligibility is adequately documented and maintained to support each determination.

Current Status: Not noted as a comment in current year's single audit report; assumed to be implemented.

PY Finding 06-06: Late Reporting

Condition: All three monthly CA 800 reports that were tested for each of the two programs [Temporary Assistance Needy Families (TANF) and Foster Care Title IV-E Program, a total of six monthly reports] were submitted to the State after the due date. Late submissions ranged from 55 to 126 days late.

Recommendation: HSA should evaluate existing procedures over reporting in light of current conditions to ensure timely submission of required reports. Adequate controls should include mechanisms to identify and track report due dates ensuring that required information is readily available to allow sufficient time for report preparation. Also, procedures should be implemented to obtain and document approved deadline extensions for expected late submission of the reports, for auditor review.

Current Status: Not corrected. See finding 2007-04.

PY Finding 06-07: Special Tests & Provisions - TANF

Condition: During the audit of the TANF program, the auditors requested CalWIN reports for individuals sanctioned under each of the special provisions during the current fiscal year, from which they selected for testing, 120 cases for the three special provisions and determined San Mateo's compliance with the applicable compliance requirements. However, the auditors noted 18 cases in which the individual did not receive benefits during the month that the case was marked as sanction in the system, as follows:

- 12 cases for the Child Support Non-Cooperation requirement
- 2 cases for the Refusal to Work requirement
- 4 cases for the Child under Six requirement.

This CalWIN data quality issue may affect management's ability to properly monitor caseload information.

Recommendation: HSA should continue to review existing information in the system to ensure that the information is accurate.

Current Status: Not noted as a comment in current year's management letter; assumed to be implemented.

Management Letter Comments:

Comment 1: Monitoring of Transactions Between Medical Center and San Mateo

Condition: Same as in Finding 07-B.

Recommendation: Same as in Finding 07-B.

Current Status: Same as in Finding 07-B.

Comment 2: Timeliness of Financial Reporting and Material Adjustments

Condition: Same as in Finding 07-A.

Recommendation: Same as in Finding 07-A.

Current Status: Same as in Finding 07-A.

Comment 3: Recording of Mortgages Receivable

Condition: Same as in Finding 07-D.

Recommendation: Same as in Finding 07-D.

Current Status: Same as in Finding 07-D.

Comment 4: Burlingame Long-Term Care Patient Trust Activity

Condition: Same as in Finding 07-C.

Recommendation: Same as in Finding 07-C.

Current Status: Same as in Finding 07-C.

Comment 5: Missing Condition of Admission Forms

Condition: During the audit of patient admissions and billing process, the auditors noted that 4 of the 32 in-patient files selected for testing did not have a Conditions of Admissions form present in the file reviewed.

Recommendation: Management of the Admissions Department should remind staff of the importance of complying with JACHO standards and to review procedures over obtaining and filing Conditions of Admissions forms to ensure compliance.

Current Status: Management agrees with recommendation. The Quality and Compliance divisions have greatly enhanced their standing with JACHO requirements.

Comment 6: Timely Completion of Annual Physical Inventory of Equipment

Condition: The Medical Center submitted their annual physical inventory of equipment for fiscal year 2007 late. It was due July 10, 2007 but was submitted on September 10, 2007. The Medical Center also submitted their fiscal year 2006 physical inventory of equipment late, which resulted in a decrease to the net equipment balance of $144,604. The year-end physical inventory of equipment is an important control to ensure that San Mateo's asset safeguards are effectively operating and equipment balances are not misstated in the financial statements.

Recommendation: The Medical Center should include the annual required physical inventory of equipment in the year-end closing plan prepared by the Finance Department, to ensure that departments complete equipment inventories timely and any noted adjustments are posted to the general ledger and included in the financial statements.

Current Status: Management acknowledges the comment but also recognizes that the current system does not adequately support the demands of a complete and accurate physical inventory. A proposed review is being requested with the

Controller's Office who is the current custodian of an updated register that is used by the Medical Center to carry out physical inventory counts. It is hoped that if adopted, this proposal will eliminate the once a year physical count, which generally defeats the purpose if not done in a timely manner.

Comment 7: Risk Assessment and Monitoring

Condition: In March 2006, the Auditing Standard Board (ASB) of the American Institute of Certified accountant's (AICPA) adopted a set of eight Statements of Auditing Standards (SAS No. 104 through 111), which, among other things, require auditors to assess an organization's design of controls and determine whether the controls have been placed in operation for all elements of internal control over financial reporting. If controls do not exist, are poorly designed or not operating effectively, the auditor must evaluate the control deficiency or material weakness. These standards have been incorporated in the *Government Auditing Standards (July 2007 Revision)* issued by the Comptroller General of the United states and are effective beginning fiscal year 2007-08.

Recommendation: In anticipation of these new audit standards, San Mateo should perform a comprehensive risk assessment analysis and document its risk assessment policies and procedures for each fiscal year beginning July 1, 2007. Furthermore, San Mateo should review the COSO *Internal Control – Integrated Framework and its related Guidance for Smaller Public Companies: Reporting on Internal Controls over Financial Reporting* and adopt the best practices outlined therein. Due to the complexities and time consuming nature, San Mateo should consider acquiring a software package designed to capture the required control documentation and assist San Mateo in assessing the effectiveness of internal control design and/or effectiveness for all five components of the COSO internal control framework.

Current Status: The Controller's Internal Audit Division has undertaken a project to document countywide controls over financial reporting. Controls will be documented initially in the Controller's Office, which will work like a 'pilot' for this project.

Prior Year Management Letter Comments:

PY Comment 1: Internal Control Weaknesses Related to Cash Receipts process

Condition: Same as in PY Finding 06-A.

Recommendation: Same as in PY Finding 06-A.

Current Status: Same as in PY Finding 06-A.

PY Comment 2: Evaluation of Potential Component Units

Condition: San Mateo did not have formal policies and procedures in place to identify and monitor potential component units for financial reporting as required by the Government Accounting Standards Board (GASB). While the Controller's Office and the County Manager's Office created a master list of organizations that may qualify for inclusion in the county's financial statements as component units, and the Controller's Office periodically reviews the Board of Supervisor's agenda to detect any new developments that may affect the county's financial statements, the master list of organizations is not updated regularly to monitor and evaluate the activities of the organizations for the potentially material impact to San Mateo's financial statements.

Recommendation: San Mateo should revisit the current process and establish formal policies and procedures to periodically identify, monitor, and re-evaluate potential component units.

Current Status: San Mateo has revised its year-end procedures and provided a component units determination guideline and questionnaire to each department during the annual closing workshop help by the Controller's Office.

PY Comment 3: Adequate Staffing for Financial Reporting and Accounting System Functions

Condition: Since San Mateo's Controller's Office has reduced staff positions over the past 7 years, net appropriations for all County funds processed by the accounting system has grown by 66%. Additionally, many of the government accounting issues have become increasingly complex and require extensive expertise and knowledge of the accounting system to ensure that the accounting and reporting are accurate and in accordance with applicable standards. As a result, San Mateo may not have adequate and competent staffing to effectively perform the functions of its accounting system.

Recommendation: San Mateo should evaluate appropriate staffing for critical functions of the Controller's Office and consider adding positions for those functions to reduce the risk of financial error, ensure their continuity and to add capacity to evaluate key business processes for countywide efficiencies and effectiveness in daily operations.

Current Status: The Controller's Office's request for additional staffing during the FY 2006-07 budget process was partially approved. A new Controller's Information System Division position was added to assist with financial system training and maintenance. The General Accounting position requested, to provide accounting support and help ensure continuation of financial reporting capacities, was not approved.

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DOLORES STREET COMMUNITY SERVICES, INC.

The Dolores Street Community Services, Inc. (Dolores Street) is a not-for-profit public benefit corporation established in 1982 to provide neighborhood-based housing, advocacy, and support for people seeking dignity, health, and hope in San Francisco. Dolores Street derives approximately 83 percent of its revenue from the City and County of San Francisco with certain portions originating from federal agencies. Dolores Street's programs include:

- Dolores Housing – A 100-bed emergency housing and support service program for homeless men, primarily the Latino working homeless of San Francisco's Mission District
- Richard M. Cohen Residence – A ten-bed, 24-hour care assisted living residence for homeless men and women with disabling HIV or AIDS
- Mission Single Room Occupancy Collaborative – A collaboration of three agencies to provide outreach, tenant stabilization and community programs for very low income single room occupancy (SRO) tenants at risk of homelessness because of lack of support services and unsafe conditions at SRO hotels
- Immigrant Legal Services Network – A network of fourteen agencies providing legal counseling, representation, processing, referrals and education to immigrants.

Total Amount Received From the City in FY 2007-08: $2,068,218

Federal Funds Received From Public Health in FY 2007-08: $132,756

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings:

Finding 07-1: Compliance with Davis-Bacon Act (40 U.S.C. 276a to a-7)

Condition: OMB Circular A-110 Appendix A – *Contract Provisions* states that "all construction contracts awarded by the recipients and sub-recipients of more than $2,000 shall include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) and as supplemented by Department of Labor regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction").

While it appears that a contractor paid approximately $38,000 for the remodeling of the Cohen Residence kitchen was in compliance with the provisions of the Davis-Bacon Act, this was not determined prior to the completion of construction.

Recommendation: Dolores Street should ensure that all employees with budgetary responsibilities over federally funded programs are conversant in the requirements of OBM Circular A-110 and A-122.

Current Status: In the case of the Cohen Residence remodeling, Dolores Street's understanding was that because this was a rehab project, rather than new construction, the $2,000 threshold for establishing compliance with Davis-Bacon before the project was not necessary. However, once they became aware that it was necessary, they asked the contractor for verification of compliance, which he provided. Dolores Street now understands that each and every contract with a construction company that is over $2,000, whether for rehab or new construction, must demonstrate compliance with the Davis-Bacon Act before the contractor is hired.

Prior Year Single Audit Findings: None

Management Letter Comments:

Comment 1: Segregation of Duties

Condition: There is no plan of organization that provides appropriate segregation of functional responsibilities. No single person should control all phases of a transaction without the intervention of some other persons who afford a cross check. Employees responsible for handling cash receipts and disbursements should have no access to the accounting records and vice versa. Whenever practical, this principle of segregating duties should be followed.

Recommendation: Bank statements should be given to the Executive Director unopened for review.

Current Status: Not available.

Comment 2: CARE Billings

Condition: Federal regulations state that costs reported be limited to actual costs not reimbursed by another governmental source. The San Francisco Department of Public Health AIDS Office Contract/MOU Invoice Manual (Revised March 31, 2005), Invoicing Procedures Section 5 states, "Contractors can only be paid up to the total contracted amount. Any costs reported beyond this amount will not be paid. However, actual costs and services performed should still be reported, as this data is useful in negotiating future contracts." During certain months, staff billed total cost of the C.N.A.'s without regard to HOPWA, or RALF reimbursements for the same cost. There was no net effect as calculations were adjusted to actual at Dolores Street's fiscal year end. As contract period and fiscal year do not coincide, there is no impact on the financial statements and as allowable actual expenses exceed that reimbursed by all the grantors, there was no effect on total reimbursed for the contract terms. The net effect was an over-billing for the contract period between July 1, 2006 and February 2007 contract period, offset by an under-billing March 1, 2007 to June 30, 2007.

Recommendation: Deduction of the reimbursement from other sources should be continued on a monthly basis.

Current Status: Dolores Street rectified the situation effective July 2007.

Prior Year Management Letter Comments:

PY Comment 1: Segregation of Duties

Condition: There is no plan of organization that provides appropriate segregation of functional responsibilities. No single person should control all phases of a transaction without the intervention of some other persons who afford a cross check. Employees responsible for handling cash receipts and disbursements should have no access to the accounting records and vice versa. Whenever practical, this principle of segregating duties should be followed.

Recommendation: Signed checks should be given to someone other than the preparer for mailing. This was also a prior year recommendation. Check requests should be approved by someone other than the person making the request and this should be documented on the face of the request. Payroll reports should be delivered directly to a person other than the preparer for review; this was also a prior year recommendation. When possible, two persons should open the mail, restrictively endorse checks received, and make a list of receipts to be given directly to the person reviewing the bank statement.

Current Status: The accounting assistant now has responsibility for mailing the signed checks prepared by the bookkeeper. The executive director now reviews pay checks upon their arrival and initials the envelope to indicate his approval. Two signatures are now required (requestor and supervisor) for every check request, no matter the size. The bookkeeper and case manager open all mail together now, deposit-stamp the revenue checks, and enter/initial the information into a log book.

See also current year's Management Letter Comment 1.

PY Comment 2: Credit Card Purchases

Condition: Personal expenses have been charged to Dolores Street's credit card. Even when reimbursed, personal purchases on company credit cards constitute loans to employees with no controls or prior authorization.

Recommendation: Dolores Street should institute policies and controls to prevent this process.

Current Status: The policy forbidding personal purchases with company credit cards has been reviewed with all staff and personal purchases are no longer made.

PY Comment 3: Cash at Events

Condition: There is a risk of defalcation of cash during Dolores Street's fund raising events.

Recommendation: Dolores Street should assess the risk and institute appropriate preventive procedures.

Current Status: A new policy of double custody of cash has been implemented for all major fundraising events. Either two staff members or a staff and volunteer will each count the money raised after an event and initial the amount of cash received on a note to accompany the cash back to the office.

PY Comment 4: Bank Accounts and Credit Lines

Condition: The auditor was unable to obtain information regarding one credit line because it is currently accessible by a former employee.

Recommendation: Dolores Street should avoid having accounts in its name that can only be accessed by a single person and ensure that prompt action is taken to ensure that authorized signatories are kept current.

Current Status: Access to the line of credit has been changed to include only current staff and board members.

FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.

Family Service Agency of San Francisco, Inc. (FSA) is a private, non-sectarian, not-for-profit, social service agency receiving funding from a number of sources, including individuals, private foundations and corporations, and local, state, and federal government. The mission of FSA is to strengthen families by providing effective, caring human services, with a special emphasis on service to low-income individual and families, children, elderly, and the disabled. Services are provided in seven languages at five principal sites and numerous outstation locations through out San Francisco. FSA services are organized under four divisions:

- Family Development Center
- The Child, Youth, and Family Division
- The Adult Division
- The Senior Division.

Total Amount Received From the City in FY 2007-08: $8,135,413

Federal Funds Received From Public Health in FY 2007-08: $5,000

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comment:

Comment 1: Temporarily Restricted Net Assets

Condition: Temporarily restricted net assets in the amount of $203,299 were used for operations. The nature of temporarily restricted net assets is such that the assets must be maintained by the organization until the purpose or time restriction is satisfied.

Recommendation: FSA management should implement controls to ensure that temporarily restricted funds are held separately and not utilized until the purpose or time condition is satisfied, in accordance with the donors' expectations.

Current Status: FSA has implemented procedures to segregate the temporarily restricted assets in question. They are replenishing their funds to maintain the appropriate balances.

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FRIENDSHIP HOUSE ASSOCIATION OF AMERICAN INDIANS, INC. AND AFFILIATE

Friendship House Association of American Indians, Inc. (Friendship House) is a nonprofit organization incorporated in California in 1971. Its mission is to bring healing and wellness to the American Indian community by providing a continuum of substance abuse prevention, treatment, and recovery services that integrate the traditional American Indian healing practices and state-of-the-art substance abuse treatment methodologies. Friendship House is state licensed, certified, and nationally accredited by the Commission on Accreditation of Rehabilitation Facilities (CARF).

Total Amount Received From the City in FY 2007-08: $446,886

Federal Funds Received From Public Health in FY 2007-08: $40,000

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Prior Year Single Audit Findings: None

Management Letter Comments: None

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HAIGHT ASHBURY FREE CLINICS, INC.

As the first free clinic of its kind in the United States, Haight Ashbury Free Clinics, Inc. (Haight Ashbury) was created to meet the critical health care needs of the thousands of youth who flocked to San Francisco's Haight Ashbury district during the "Summer of Love" in 1967. Since then, changing community needs and the demand for comprehensive services has led to Haight Ashbury's growth into one of San Francisco's largest multi-service agencies. The medical clinic is now one of five health programs of Haight Ashbury, providing medical health, mental health, and substance abuse treatment services. Haight Ashbury has five health programs:

- Substance Abuse Treatment Services
- Jail Psychiatric Services
- Medical Clinics
- Rock Medicine
- Research, Education and Treatment.

Total Amount Received From the City in FY 2007-08: $11,248,690

Federal Funds Received From Public Health in FY 2007-08: $1,574,232

Single Audit Reviewed: Fiscal year ended December 31, 2007

Single Audit Findings: None

Prior Year Single Audit Findings:

PY Finding 06-1: General Ledger Account Reconciliations

Condition: Certain balance sheet accounts were not reconciled on a consistent, periodic basis during the fiscal year. Haight Ashbury did not complete timely reconciliations for the following general ledger categories:

- Cash and investments
- Prepaid expenses
- Fixed assets
- Contributions
- In-Kind contributions.

These accounts were ultimately reconciled, but several months after the fiscal year-end. The general ledger must be reconciled consistently and timely for accurate financial reporting that is useful to management. Management said that the staff assigned was not able to perform the reconciliation. As a result, management did not have a true representation of its financial position for several months after the end of

the year, on which management based certain decisions.

Recommendation: To ensure accurate periodic financial reporting, Haight Ashbury should require timely periodic account reconciliation to determine that the account balances are accurate and properly stated, and should include timely supervisory reviews of the reconciliations.

Current Status: Procedures have been put in place to address the prior year finding; the finding is no longer applicable.

PY Finding 06-2: Accrual of Period Expenses and Transactions

Condition: Haight Ashbury frequently records its liabilities as of the related invoice date and not as of the date the liability for products or services was incurred, which will frequently be the date received. It failed to review, capture and record all accrued liabilities as of the end of its fiscal year, including various accrued liabilities and its leasehold improvement assets and obligations. Generally accepted accounting principles require that all transactions incurred in a period be properly accrued to enable management to have timely and accurate financial information.

Recommendation: Haight Ashbury should ensure all liabilities for products or services are properly accrued as of its fiscal year end, if not on a periodic basis throughout the year. Proper accrual of expenses on a periodic basis will improve financial information being used by management to make operating decisions.

Current Status: Procedures have been put in place to address the prior year finding; finding is no longer applicable.

Management Letter Comments: None

HORIZONS UNLIMITED OF SAN FRANCISCO, INC.

Horizons Unlimited of San Francisco, Inc. (Horizons) is a nonprofit public benefit corporation organized under the Nonprofit Public Benefit Corporation law for charitable and educational purposes. The specific purpose of this corporation is to provide services to youths between the ages of twelve and twenty-six years. The services provided by Horizons are: substance abuse prevention, substance abuse treatment, and employment and support services. Horizons receives grants primarily from the City and County of San Francisco, Department of Public Health, Community Behavioral Health Services.

Total Amount Received From the City in FY 2007-08: $1,253,314

Federal Funds Received From Public Health in FY 2007-08: $538,246

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments:

Comment 1: Monthly Attendance Records

Condition: Horizons discontinued the use of monthly client attendance records contained in each client file.

Recommendation: Continue the practices of maintaining monthly client attendance records as it is a direct link to original signature attendance records per group/class.

Current Status: Unknown. Management's response unavailable.

Comment 2: Summary Count Spreadsheets

Condition: Horizons does not have summary count spreadsheets.

Recommendation: The use of monthly summary count spreadsheets should be used by each counselor in the prevention programs. The monthly spreadsheets are used to summarize units of service rendered by program and are a convenient and accurate way of rolling forward units of service rendered to the billing form, DPH-Fee for service statement of deliverables and invoice.

Current Status: Unknown. Management's response unavailable.

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HUCKLEBERRY YOUTH PROGRAMS, INC.

Huckleberry Youth Program, Inc. (HYP), formerly Youth Advocates, Inc., is a California nonprofit public benefit corporation organized to provide services to adolescents and their families in San Francisco and Marin Counties. The agency was founded in 1967 with the establishment of Huckleberry House, the first adolescent crisis shelter in the country and the model for adolescent shelters funded since 1974 by the federal Homeless and Runaway Youth Act. Huckleberry House was created as a community response to the large number of young people who came to San Francisco in the late 1960s, some of who were fleeing from very difficult situations and needed help on the road to becoming healthy, responsible adults.

The mission of HYP is to engage adolescents and their families in San Francisco and Marin Counties in a comprehensive array of quality services addressing prevention and health promotion, crisis intervention, stabilization, and growth. HYP's goals are to empower young people to develop and maintain healthy relationships, as well as to promote their talents, ideas, leadership, and health; to assist youth and their families in overcoming the obstacles they may encounter, which can include family concerns, drug and alcohol abuse, mental health challenges, teen pregnancy, sexually transmitted infections, violence, social and economic inequities, and physical and sexual abuse; and, to assist clients in navigating complex social welfare, educational, and juvenile justice systems.

Total Amount Received From the City in FY 2007-08: $1,776,305

Federal Funds Received From Public Health in FY 2007-08: $26,121

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments: None

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INSTITUTO FAMILIAR DE LA RAZA, INC.

Instituto Familiar De La Raza, Inc. (La Raza) is a multi-service community health and social service agency with emphasis in serving the Chicano/Latino community in San Francisco with a special focus on the diverse needs of the Mission District. Services include a wide range of mental health, HIV related services, and social services including health promotion, education, prevention, early intervention, case management, and clinical and artistic mentoring services, psychological and psychiatric interventions as well as cultural/social and spiritual re-enforcement. La Raza serves children, youth, adults, and families; it has a rich history of working collaboratively with other organizations to meet the needs of the diverse Chicano/Latino communities, and other cultural/racial communities in San Francisco. Established in 1978, La Raza is an exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Total Amount Received From the City in FY 2007-08: $3,845,330

Federal Funds Received From Public Health in FY 2007-08: $388,007

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments: None

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JAPANESE COMMUNITY YOUTH COUNCIL

Japanese Community Youth Council (JCYC) is a not-for-profit public benefit corporation established in 1970 to support the needs of the diverse, multi-cultural population of children, youth and families throughout San Francisco by: providing a comprehensive continuum of care; empowering young people to realize their full potential as self-sufficient, responsible members of the community; providing leadership in collaborative efforts to foster better relationships and communication among different communities; and supporting the cultural, educational, recreational, and vocational needs of children and youth. JCYC operations include several programs for daycare, recreation, tutorial and job placement, as well as substance abuse prevention programs. JCYC receives approximately 85 percent of its annual budget from governmental sources.

Total Amount Received From the City in FY 2007-08: $8,080,502

Federal Funds Received From Public Health in FY 2007-08: $711,364

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments: None

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LARKIN STREET YOUTH SERVICES

Founded in 1984, Larkin Street Youth Services (Larkin Street) is a community-based nonprofit organization dedicated to helping homeless, runaway, and at-risk youth in San Francisco find healthy and lasting alternatives to street life. Over the past 24 years, Larkin Street has grown from a small drop-in center into what it is today: a nationally recognized continuum of youth-centered services designed to support a young person's permanent transition from street life to independence.

Today, Larkin Street operates eleven distinct housing programs and provides extensive street outreach service, wraparound case management, health care (including metal health, substance abuse, HIV prevention and treatment), and education and employment support. In 2006-07, Larkin Street served over 3,000 homeless and runaway youth between the ages of 12 and 24 through their onsite programs, and made over 4,800 outreach contacts on the streets of San Francisco. Larkin Street's distinctive model of care builds on and acknowledges the strengths and accomplishments of youth and celebrates their achievements. The integration of crisis intervention, housing, rehabilitation and supportive services has proven extremely successful in breaking the cycle of homeless: 75% of young people who complete their comprehensive programs successfully leave street life permanently. Larkin Street's primary source of revenue is from government contracts, grants, and contributions from the general public.

Total Amount Received From the City in FY 2007-08: $4,959,681

Federal Funds Received From Public Health in FY 2007-08: $197,460

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings:

Finding 07-1: Preparation of Annual Financial Statements and Year End Close

Condition: There was a lack of timely preparation of account analysis which necessitated a number of journal entries as well as instances where requested information could not be located in a timely fashion.

Recommendation: Larkin Street should develop a clear-cut plan for the preparation of its annual financial statements and its year end close, including the following:

- Determine the appropriate level of staffing for the department based on the type and amount of work it is expected to perform and hire additional staff as necessary. Personnel should have the appropriate skills to perform their duties and should be properly supervised and trained. Assessment of new personnel should continue to be made on a regular basis.

- Review the documentation of accounting procedures to determine that they properly reflect how transactions are recorded as well as the assignments of duties to ensure they are properly segregated or that other mitigating controls are in place to enhance internal control. Example of procedures that could be considered to enhance internal control include:

    - Signed checks should be mailed without allowing them to be returned to the employees responsible for accounts payable.
    - Unopened bank and investment statements should be opened and reviewed by someone who does not have access to the general ledger.
    - Bank reconciliation should be approved by someone other than the person preparing them.
    - Someone independent of the accounting function should review journal entries on a regular basis. This review process should be performed by someone with some accounting knowledge. The purpose of the review would be to determine that no unusual or unsupported entries are posted to the general ledger.
- Develop a monthly financial statement closing checklist which includes a checklist of standard journal entries, account reconciliations, standard reports, and external reporting requirements and deadlines. This checklist should be completed by the Controller on a monthly basis and provided to the COO along with the financial statements.
- Develop a program compliance checklist to assist the COO or Treasurer in monitoring Larkin Street's compliance for those programs receiving local, state, and federal funding.
- Maintain an appropriate system of filing enabling supporting documents and financial records to be located in a timely manner.
- Develop a contract compliance checklist which includes review of the contract billing prior to seeking reimbursement, and determination that all costs charged to the contract have supporting documentation.
- Ensure that contributions, including donated goods and services, are indentified, evaluated and accepted under an appropriate gift acceptance policy. This policy should specify when revenue should be recognized.
- Ensure that the donor database allows accessibility by the finance department to donor information, amounts contributed and the nature of any restrictions.

Current Status: Corrective action has been taken.

Larkin Street has commenced the review and revision of the documentation of its accounting procedures to ensure that appropriate segregation of duties. In addition, policies have been implemented for journal entry approval and gift acceptance.

Finding 07-2 and 07-3: Cost Principles – Emergency Shelter Grant Program CFDA# 14.231; Supportive Housing Program CFDA # 14.235; CARE/Comprehensive Housing and Attendant Care CFDA #93.914

Condition: Certain subcontractor expenses were expensed and charged to awarding agencies based on estimated amounts rather than based on actual expenditures. The recording of these expenditures in such manner is not consistent with the required cost principles outlined in *OMB Circular A-122, Cost Principles for Non-Profit Organizations.*

Recommendation: Larkin Street should modify its existing procedures so that only actual expenditures are recorded and charged to awarding agencies. By ensuring that only actual costs are expended and charged, Larkin Street significantly reduces the risk that costs may be considered unallowable or questioned by the awarding agency.

Current Status: Larkin Street has modified procedures for recognizing subcontractor expenses so that only actual billed expenditures from the subcontractor are recorded. Awarding agencies will be billed only the actual subcontractor expenditures.

Management Letter Comments: Same as Single Audit findings.

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LATINO COMMISSION ON ALCOHOL AND DRUG ABUSE SERVICES

The Latino Commission on Alcohol and Drug Abuse Services (Latino Commission) is a tax-exempt corporation, organized under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509 (a) (2) of the Internal Revenue code. It is organized under the laws of the State of California for the purpose of providing shelter, counseling and support for issues related to substance abuse. The Latino Commission was incorporated on April 14, 1992.

Total Amount Received From the City in FY 2007-08: $1,383,210

Federal Funds Received From Public Health in FY 2007-08: $50,000

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Prior Year Single Audit Findings: None

Management Letter Comments: None

Prior Year Management Letter Comments:

PY Comment 1: Payroll Advancements

Condition: There are several instances where Latino Commission made payroll advances without the employee filling out a payroll advancement requisition form.

Recommendation: All payroll advances should be supported by a payroll advancement requisition form which is approved by the appropriate personnel.

Current Status: Assumed to be implemented.

PY Comment 2: Board Minutes

Condition: Latino Commission's Board Secretary did not sign nor date the minutes of the Board of Directors' meeting.

Recommendation: All Board minutes should be signed and dated by the Board Secretary and extra copies should be saved for future references.

Current Status: Assumed to be implemented.

PY Comment 3: Personnel Manual

Condition: Some employees had not signed a certification that they had read and agreed to following Latino Commission's policies as outlined in the personnel manual.

Recommendation: Latino Commission should require all employees to sign a certification to follow its policies as outlined in the personnel manual.

Current Status: Assumed to be implemented.

PY Comment 4: Credit Cards

Condition: Latino Commission's policies do not prohibit the drawing of cash and personal charges to the organization's credit card, although the auditors noted that there were no instances when this occurred.

Recommendation: Latino Commission should revise its policies to include a prohibition of cash drawn or personal charges made against its credit card.

Current Status: Assumed to be implemented.

PY Comment 5: Allocation of Expenses

Condition: In one instance Latino Commission staff could not explain how an expense was allocated to the various residential homes.

Recommendation: The Latino Commission should allocate all joint costs based on a predetermined allocation plan.

Current Status: Assumed to be implemented.

PY Comment 6: Workmen's Compensation Insurance

Condition: The Latino Commission was without Workmen's Compensation insurance for a period of four months due to non payment of premium.

Recommendation: The Latino Commission should ensure adequate cash flow to provide for timely payments of all its insurance.

Current Status: Assumed to be implemented.

PY Comment 7: Retirement Plan

Condition: A tax return for Latino Commission's retirement plan has not been filed.

Latino Commission also could not determine when it filed its last tax return.

Recommendation: The Latino Commission should determine whether a tax return for its retirement plan is required to be filed.

Current Status: Assumed to be implemented.

PY Comment 8: Fixed Assets

Condition: The Latino Commission has not performed a physical inventory of fixed assets. Also, the agency did not have a current listing of assets.

Recommendation: The Latino Commission should perform a physical inventory of fixed assets on a regular basis. The physical count should be reconciled to amounts recorded in the general ledger. Any difference should be investigated.

Current Status: Assumed to be implemented.

PY Comment 9: Board of Director's Oversight

Condition: The Latino Commission's management staff may be too small to be very effective.

Recommendation: The Latino Commission's Board of Directors should remain involved in all the affairs of the organization to provide for checks and balances, oversight and independent review.

Current Status: Assumed to be implemented.

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MISSION AREA HEALTH ASSOCIATES, INC.

Mission Area Health Associates, Inc. (Mission Area Health) is a California nonprofit corporation, doing business as Mission Neighborhood Health Center (Health Center). Its objective is to provide primary care and support services for medically underserved residents of the Mission District and surrounding neighborhoods. In October 1987, Mission Area Health became a direct grantee of the Department of Health and Human Services. Mission Area Health is also a recipient of various program grants from the State of California and the City and County of San Francisco, and it generates revenue from patients and third-party payers (Medi-Cal, Medicare, private insurance companies, Family Pact, Healthy Family, etc).

Total Amount Received From the City in FY 2007-08: $4,171,099

Federal Funds Received From Public Health in FY 2007-08: $1,617,864

Single Audit Reviewed: Fiscal year ended December 31, 2007

Single Audit Findings: None

Management Letter Comments: None

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NEW LEAF: SERVICES FOR OUR COMMUNITY

New Leaf: Services For Our Community (New Leaf) is a nonprofit corporation incorporated in California on October 15, 1995. New Leaf is a result of a merger between 18th Street Services and Operation Concern, both of which have existed for over 25 years. It is a multi-service outpatient treatment center serving members of the lesbian, gay, bisexual, and transgender communities of San Francisco. New Leaf provides services to over 1,500 persons per year in the areas of mental health, substance abuse, HIV/AIDS, and senior social services. Services include individual, couples, group, and family therapies; psychiatric medication monitoring; and social, recreational, and case management services to seniors. New Leaf has the following treatment and information programs:

- Substance Abuse Services
- Mental Health Services
- HIV/AIDS Services
- New Leaf Outreach to Elders.

Total Amount Received From the City in FY 2007-08: $2,408,908

Federal Funds Received From Public Health in FY 2007-08: $904,234

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments:

Comment 1: Reconciliations to External Benchmarks

Condition: New Leaf's database is not reconciled with the City and County of San Francisco's database and includes units of service that had been dropped by the Department of Public Health's database; the missing units were not discovered until the end of the billing year.

Recommendation: Reconcile New Leaf's data to the external data to provide a benchmark to support units of service fees earned.

Current Status: Procedure has been modified so that timely reconciliations are performed and are reviewed and signed-off by a member of the clinical management team. Additional work is being done to further customize New Leaf's internal database so that it more easily reconciles with the Department of Public Health's database.

Comment 2: Changes to the IRS Form 990

Condition: In 2007 the Internal Revenue Service made many significant changes to the Form 990 Informational Tax Return for Nonprofit Organizations. Most of the changes have to do with reporting information about New Leaf's key management personnel, New Leaf's board members and officers, and disclosing related party connections that may exist.

Recommendation: Even if New Leaf retains a certified public accountant or other professional to prepare Form 990, the agency is still responsible for disclosing this information to their preparer.

Current Status: As of 2008, New Leaf's IRS 990 is being prepared by the CPA who conducts their annual audit.

NORTH EAST MEDICAL SERVICES

North East Medical Services (NEMS) was incorporated on August 6, 1968, in California as a not-for-profit corporation. NEMS is a family-oriented, comprehensive health center situated in the City and County of San Francisco, which has areas designated by the Federal government as medically underserved, ranking low in the necessary number of appropriate health care providers and high in major health problems. NEMS is the largest community health center in the nation serving a predominantly Asian American population.

NEMS offers a wide range of health services, such as primary and specialty medical care, dental and optometric care, as well as supplemental services including nursing, nutrition, social services, pharmacy, radiology, and laboratory with special considerations for cultural traditions. NEMS integrates preventive care into its program. NEMS MSO provides skill, supervision and personnel in the operation and administration of California Pacific Medical Center's and NEMS managed care business. NEMS recognizes it is part of a network of community health care providers and agencies and has established links with other health and social agencies and the state and local health departments in an effort to provide the best care possible.

Total Amount Received From the City in FY 2007-08: $47,734

Federal Funds Received From Public Health in FY 2007-08: $47,734

Single Audit Reviewed: Fiscal year ended December 31, 2007

Single Audit Findings:

Finding 07-1: Bank Reconciliation

Condition: A review of the bank reconciliation of the A/R concentration account showed that there was a significant unreconciled difference between the bank and the ledger. Additionally, the reconciliation reports for the A/R disbursement account showed large numbers of outstanding checks. There was a system error and checks were shown as outstanding even though they were cleared by the bank.

Recommendation: All bank accounts should be reconciled each month. The bank reconciliation should be reviewed for accuracy and completeness on a timely basis by the controller/CFO. If necessary, the staff who prepares the reconciliations should be given additional training and instruction on how to prepare them accurately and completely.

Current Status: In August 2008, NEMS engaged an outside financial consulting firm to review its bank reconciliations for all of 2007 and identify any adjustments needed to properly reconcile the December 31, 2007 balance. This consultant was also engaged to prepare monthly reconciliations of all accounts through July 31,

2008. In addition, the consultant will provide detailed policies and procedures for preparing monthly bank reconciliations and will review the monthly reconciliations prepared by NEMS staff through the December 31, 2008, reconciliations.

Finding 07-2: Accounting Functions

Condition: Accounting functions were not supervised; as a result journal entries were not reviewed or approved. Bank reconciliations were not reviewed. The financial statements were not reviewed. There were errors in revenue recognition since work done by the staff was not supervised.

Recommendation: All transactions should be authorized, accounting staff's work should be supervised and reviewed so that the ledger reflects correct balances and the financial statements are not misstated and correctly presented.

Current Status: During 2008, NEMS enhanced staffing in its accounting department. This included the hiring of an accountant and an experienced chief financial officer. Finally, NEMS is in the process of upgrading its accounting software. As part of this upgrade, NEMS is reviewing and revising its accounting policies and procedures. This will include appropriate review and signoff of all journal entries and other transactions issued by the department. These procedures will be implemented by the 4th quarter, 2008.

Prior Year Single Audit Finding: None

Management Letter Comments:

Comment 1: Fixed Assets

Condition: NEMS maintains an inventory of fixed assets at various departments, however, this effort is not consolidated to reconcile the total inventory of fixed assets to amount recorded in general ledger. Also, there is lack of coordination of disposal of inventory which is not forwarded to fiscal department.

Recommendation: NEMS should maintain an inventory of fixed assets which includes detail such as:

- Description, asset number and location
- Acquisition cost and date of acquisition
- Assigned life and method of depreciation.

Current Status: During 2008, NEMS enhanced staffing in its accounting department. This included the hiring of an accountant and an experienced chief financial officer. In addition, NEMS adopted a formal Corporate Compliance Program to assure compliance with all regulatory and financial requirements. Finally, NEMS is in the process of upgrading its accounting software to include a fixed asset

module. As a result of these activities, NEMS will develop and implement a comprehensive fixed asset management program by the end of 2008.

Comment 2: Grant Billing

Condition: For some grants there was significant delay in sending bills to the grantors although the amount was recognized as revenue in the general ledger.

Recommendation: Invoices for grants should be billed promptly so that funds can be received from the grantors in a timely manner.

Current Status: During 2008, NEMS enhanced staffing in its accounting department, including hiring an accountant and an experienced chief financial officer, adopting a formal Corporate Compliance Program to assure compliance with all regulatory and financial requirements, and is developing formal monthly and annual closing procedures. These procedures will include review of each grant and ensuring billing has been completed in a timely manner. They will also provide for regular reporting to senior management and to the board of directors.

Comment 3: Develop Year End Closing Procedure

Condition: This year's audit was delayed because some important procedures, such as producing trial balance, reconciliations, account analysis, and other financial reports were not performed on time.

Recommendation: Year end closing could proceed more quickly by developing a closing schedule that indicates who will perform each procedure and when completion of procedure is due and accomplished.

Current Status: During 2008, NEMS enhanced staffing in its accounting department, including hiring an accountant and an experienced chief financial officer, adopting a formal Corporate Compliance Program to assure compliance with all regulatory and financial requirements, and NEMS is in the process of upgrading its accounting software. As part of this upgrade, NEMS is reviewing and revising its accounting policies and procedures. This will include developing formal monthly and annual closing procedures and extensive training on effective use of the accounting software. These procedures will be implemented by the 4th quarter, 2008.

Comment 4: Accounts Receivable

Condition: Various accounts are maintained for receivables; for each payer type a separate A/R adjustment account is maintained. The amount in the general ledger matches with the subsidiary ledger in totality but it's difficult to correlate the general ledger and the report from the billing system. This issue also noted in the FY 2006-07 Management Letter.

Recommendation: All unnecessary accounts in the general ledger should be closed and the A/R report from the billing system should match with the general ledger.

Current Status: NEMS is in the process of upgrading its accounting software. A key component of the implementation process is a review of the chart of accounts. Both the accounts receivable and patient revenue general ledger codes and the procedures for recognizing revenues and receivables and for estimating bad debt allowances will be revised as part of the software implementation. This will be accomplished in the 4th quarter, 2008.

Comment 5: MSO

Condition: Payments made to NEMS by MSO from the expenses and income at the time of consolidation should be eliminated. The manner in which the recording of entries is done makes it not possible to identify the amounts received from MSO in NEMS books for this elimination. This issue also noted in the FY 2006-07 Management Letter.

Recommendation: Transactions between NEMS and MSO be accounted for separately in the general ledger so that it is possible to identify the inter segment transactions for eliminations for the consolidated audit report.

Current Status: NEMS will review its procedures for transactions between the MSO cost center and the clinical cost centers. All such transactions will be treated as if they were intercompany transactions between separate entities, in order to create a meaningful audit trail. This will be accomplished in the 4th quarter, 2008.

Comment 6: Bank Reconciliation

Condition: A review of the bank reconciliation for the A/P disbursement account showed that two checks were issued in May 2007 but were not released for payment. There is no follow up process in place for outstanding checks. They were subsequently voided in 2008.

Recommendation: Although invoices should be promptly entered into the accounts payable system, checks should not be prepared until the disbursements are ready to be made and released.

Current Status: NEMS will review its procedure for disbursements and set up a system so that checks are not prepared unless payments are expected to be made timely.

Prior Year Management Letter Comments:

PY Comment 1: Cash Receipts

Condition: Out of twenty-five cash receipt samples, the auditors were not provided with supporting documents for four samples. They were informed that since the work was performed by temporary staff it was difficult to locate the supporting documents.

Recommendation: The filing of documents should be such that the documents can be easily retrieved by the staff and can be easily re-filed.

Current Status: Not noted as a comment in current year's management letter; assumed to be implemented.

PY Comment 2: Accounts Receivable

Condition: Various accounts are maintained for receivables; for each payer type a separate A/R adjustment account is maintained. The amount in the general ledger matches with the subsidiary ledger in totality but it is difficult to correlate the general ledger and the report from the billing system.

Recommendation: All unnecessary accounts in the general ledger should be closed and the A/R report from the billing system should match with the general ledger.

Current Status: Not corrected. See the FY 2007-08 Management Letter, *Comment 4*.

PY Comment 3: MSO

Condition: The auditors eliminated the payments made to NEMS by MSO from the expenses and income at the time of consolidation, but it is not possible to identify the amounts received from MSO in NEMS' books because all receipts are accounted for in one account without adequate analysis.

Recommendation: Transactions between NEMS and MSO should be accounted separately in the general ledger so that it is possible to identify the inter program transactions for eliminations for the consolidated audit report. The transactions posted in the system from which the two trial balances are extracted from should be structured in such a manner that makes the audit trail for elimination of transactions easy.

Current Status: Not corrected. See the FY 2007-08 Management Letter, *Comment 5*.

PY Comment 4: Other

Condition: Accountants' duties include creating original source documents (purchase orders, checks, etc.), generating checks, recording the entries into the general ledger, and making adjustments to the general ledger. However, during the audit, the auditors noted that there is no review of accountants' work. Several errors were made without immediate correction.

Recommendation: A CFO should be retained to authorize accounting transactions, supervise accountants' work, and review statements for accuracy. The addition of a CFO would increase the controls over the organization's accounting functions and would also be an additional resource for management by providing them with budgets, analyses, and other reports that could be useful in making decisions.

Current Status: Not noted as a comment in current year's management letter; assumed to be implemented.

PY Comment 5: Grant Income

Condition: Grant income and full charge amount for homeless patients have been charged to the same account. The adjustment against the full charge has been charged to write off account. As a result, it is not possible to identify the grant amount for the homeless grant.

Recommendation: Grant income should be accounted separately.

Current Status: Not noted as a comment in current year's management letter; assumed implemented.

PY Comment 6: Accounting Policies and Procedures and Training

Condition: For the size of the organization there was not enough training and accounting policies and procedures were not understood clearly by the accounting staff.

Recommendation: Adequate training should be provided to staff regarding accounting policies and procedures and in this way as the company grows, employees can maintain a clear understanding of how duties should be performed.

Current Status: Not noted as a comment in current year's management letter; assumed to be implemented.

SAN FRANCISCO BAR ASSOCIATION VOLUNTEER LEGAL SERVICES PROGRAM

Established in 1978, the San Francisco Bar Association Volunteer Legal Services Program (VLSP) was incorporated in 1984 as a California nonprofit public benefit corporation. Its purpose is to provide free legal and social services to low-income individuals and families in the San Francisco Bay Area. VLSP and the Bar Association of San Francisco (Bar) are affiliated corporations. The president of the Bar's Board appoints the Board of Directors of VLSP and the officers of the Bar also serve as officers of VLSP. VLSP has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board under Sections 501(c)(3) and 23701(d), respectively; therefore, no provision for income taxes has been provided in these financial statements. There are no activities unrelated to its tax exempt purpose.

Total Amount Received From the City in FY 2007-08: $486,613

Federal Funds Received From Public Health in FY 2007-08: $59,620

Single Audit Reviewed: Fiscal year ended December 31, 2007

Single Audit Findings: None

Prior Year Single Audit Findings: None

Management Letter Comments: None

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SAN FRANCISCO FOOD BANK

The San Francisco Food Bank (Food Bank) is the largest distributor of food to low-income families and individuals in San Francisco, providing non-perishable groceries, fresh produce, bread and meat to more than 600 food programs, from senior centers and after-school programs to soup kitchens and food pantries. The Food Bank solicits donations from a nationwide network of sources, including large manufacturers, supermarket chains, wholesalers, restaurant suppliers, the United States Department of Agriculture, growers, and food drives; then distributes these food commodities to qualifying public service agencies and neighborhood pantries.

Total Amount Received From the City in FY 2007-08: $878,197

Federal Funds Received From Public Health in FY 2007-08: $42,100

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Prior Year Single Audit Findings: None

Management Letter Comments:

Comment 1: Segregation of Duties

Condition: In regard to the Food Bank's procedures and controls related to check writing and bank reconciliation functions, there is a member of the accounting department that has more responsibility than is optimal. Specifically, the individual who performs the monthly bank reconciliations also has the ability to perform check writing for the Food Bank. This individual also receives and reviews the unopened bank statements and cancelled checks. This condition could provide an opportunity for misappropriation of funds and concealment of such activity. Note that this comment is not meant to imply that the auditors identified unauthorized disbursements, but that additional controls could reduce the risks.

Recommendation: The Food Bank should assign an individual independent of the check writing and bank reconciliation functions to receive the bank statements unopened and scan the cancelled checks for authorized signatures, reasonable payee names, and reasonable payment amounts and initial and date the first page of the bank statements (to provide evidence that this procedure was performed).

Current Status: Management will designate a staff member to receive the unopened bank statements and complete those tasks indicated in the above recommendation.

Comment 2: USDA Inventory Activity Reporting

Condition: The Food Bank prepared its required monthly USDA Inventory Activity Reports during the year; however, the reports were not "locked out" (electronically posted). In accordance with the EFAP (Emergency Food Assistance Program) manual "a report will not be considered as being filed until the ERA (Eligible Recipient Agency) has "locked out" the report." In accordance with the manual, Inventory Activity Reports for the previous month were due by the 10th of each month but the updated August 2006 manual states that the due date has been revised to the last day of the month following the month being reported.

Recommendation: The Food Bank should calendar and "lock out" (electronically submit) all required USDA reports by their established due dates as per the attached section from the August 2006 EFAP manual. In addition, the Food Bank should keep electronic documentation that shows the report was "locked out" each month.

Current Status: The Food Bank will have a staff member calendar and "lock out" all required USDA reports by their established due date and keep electronic documentation indicating that the report was "locked out."

Comment 3: Donated Food Pickup

Condition: The Food Bank's daily donated food pickup program from retail stores was performed by single drivers and in many cases there was not a bill of lading (or similar paperwork) to reconcile the quantities of food to be picked up to the actual quantities of food picked up and delivered back to the warehouse. The food picked up for this program amounted to 254,224 pounds or 9/10th of 1% of the total donated food received by the Food Bank. The risk is that the food could be diverted by the driver and go undetected by the Food Bank.

Recommendation: The Food Bank should consider implementing one or more of the following procedures/systems to strengthen controls over food pickup:

- Require two drivers on all food pickups
- Periodically follow drivers on selected food pickups
- Purchase and install Global Positioning System (GPS) vehicle tracking and monitoring systems in some or all delivery trucks allowing the Food Bank to track the route of the trucks. In addition, some GPS vehicle tracking and monitoring systems can also monitor each time the trailer door has been opened and closed.

Current Status: The Food Bank understands and believes that the integrity of their pickup and delivery system is important. For large loads, they have a bill of lading. For smaller pickups of donated items from retail stores, it is not practical to ask for a bill of lading. The product they're picking up is at very low risk for diversion as the quantities are small, the product is close to or beyond code date, and the items

picked up are unpredictable. The Food Bank currently tracks and reviews the amount of product received from each store by category (e.g., protein, bread). This report is shared with the driver who picks up the product. As part of their review of these reports, they will look for any significant changes in the amounts received and investigate why these changes occurred. While their previous experience with GPS was not effective, they will try to locate other food banks that use GPS for their in-store pickup programs to see if it is effective for them.

Prior Year Management Letter Comments:

PY Comment 1: Eligibility Reporting – Supporting Documentation

Condition: During the Emergency Food Assistance Program (EFAP) compliance testing, the auditors selected five agencies from the list of EFAP distribution agencies and randomly selected five distribution dates for each agency tested. Of the twenty-five Form EFA-7s, EFAP Certification of Eligibility and Receipt for USDA Commodities tested, six EFA-7 forms were missing, and the Food Bank does not always receive Form EFA-7 on time from certain agencies due to lack of staff. In these cases, the Food Bank used the prior week's numbers to estimate the number of people served. As a result, the Food Bank's quarterly Household Participation (HHP) reports did not agree to the total number of households served and total number of people served as reported by the agencies on their Form EFA-7s. The California Department of Social Services is also aware that the Food Bank uses estimates if they do not receive the agency reports on time.

Recommendation: The Food Bank should require food recipient agencies to submit their Form EFA-7s timely, to follow up with the late agencies to obtain the reports, and to inform the agencies that submitting the reports is a requirement for participating in the program.

Current Status: Prior to submitting the quarterly HHP reports, a Program Staff member will follow up with the non-submitting agencies and remind them of the deadline, the importance of completing the paperwork, and that the agencies may be suspended for non-submission of their paperwork.

PY Comment 2: Sarbanes-Oxley Required Policies

Condition: The Sarbanes-Oxley Act requires all corporations, whether for profit or nonprofit to have a Whistle-Blower protection policy and to document retention and destruction policy. Food Bank did not have a Whistle-Blower protection policy.

Recommendation: The Food Bank should develop, adopt, and disclose a formal process to deal with complaints and prevent retaliation.

Current Status: Implemented. The Food Bank developed and adopted a whistle-blower protection policy and included in the revision of the employee handbook

which all Food Bank employees received.

PY Comment 3: Other "Best Practices Policies"

Condition: The Food Bank has a conflict of interest policy for its board members but the policy does not include staff members and volunteers, which would prevent their personal interest from interfering with the performance of their duties to Food Bank or result in personal financial, professional, or political gain on their part at the expense of Food Bank, its members, supporters and stakeholders.

Recommendation: The Food Bank should develop, adopt, and disclose a formal conflict of interest policy to include not only the board members, but also the staff members and the volunteers.

Current Status: Implemented. Management developed and adopted a conflict of interest policy that was included in the revised employee handbook which all Food Bank employees received.

SAN FRANCISCO PARTICULAR COUNCIL OF THE SOCIETY OF ST. VINCENT DE PAUL

The San Francisco Particular Council of the Society of St. Vincent de Paul (the Society) was established in San Francisco in 1860 and for over 145 years, need has been the only requirement to receive help. The purpose of the Society is to help the neediest members of the community to become as self-sufficient as possible. Through its services, the Society helps over 1,000 people in San Francisco every day, those who are suffering from poverty, homelessness, substance abuse and domestic violence.

Total Amount Received From the City in FY 2007-08: $1,744,862

Federal Funds Received From Public Health in FY 2007-08: $597,527

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings:

Finding 07-1: Financial Results of the Operation

Condition: The auditors encountered delays in the receipt of information required to complete the single audit, which may indicate that certain account reconciliations and analysis necessary for accurate finance reporting were not in place during the year. The auditor determined this was due to turnover within the Finance Department during the year. The Society has hired a new director of finance as well as other personnel within the department subsequent to June 30, 2007. This was also a prior year management letter comment.

Recommendation: Under the direction of the director of operations, the Society should continue consideration of the following:

- Develop a clear-cut plan for the accounting department that provides the following:
  - Assessment of the operations of the department to determine that it is appropriately staffed for the amount of work that it is expected to perform and that personnel are properly supervised and trained
  - Definite placement of responsibility and for lines of authority within the department
  - A division of duties, wherever practicable, between the authorization and record keeping so that the activities of one employee act as a check on those of another
  - Forms, documents, and procedures that provide for controls and proper approvals
  - Monitoring for compliance with policies, procedures, and budgets

  - Periodic review of the internal control system.
- Assess the current accounting software to determine that it is being utilized to its full potential and sufficient to provide for the needs of the Society.
- Develop an accounting manual which should include copies of forms and formats used, documentation of the accounting software, as well as a monthly checklist that details all recurring journal entries, account reconciliations, and standard reports. The documentation should include how transactions, such as contributions, are communicated to the accounting department. The manual should also include how various departments are to communicate information to the accounting department. In addition, a monthly closing checklist should be developed which includes a checklist of standard journal entries, account reconciliations, standard reports, and external reporting requirements and deadlines. This checklist should be completed on a monthly basis by the director of finance and provided to executive director and treasurer along with the monthly financial statements and budget to actual variance analysis.
- The vendor master file should be reviewed for completeness, the existence of vendors be confirmed, the file be purged of vendors without recent activity and that new vendors be verified.
- Segregate the financial reporting for the Arlington Hotel from the Society's operations for internal financial reporting purposes. Consideration should be given to establishing a separate payroll account for Arlington.
- The Society should develop guidelines for expense reimbursements, which include requiring program directors to closely review all expense reports for proper documentation before approval and the accounting department should reject reports not meeting the policy and not appropriately approved. The executive director's expenses reports should be reviewed by the treasurer on a quarterly basis.

Current Status: Implemented.

Management Letter Comments: None.

Prior Year Management Letter Comments:

PY Comment 1: Financial Reporting Function

Condition: The auditors encountered delays in the receipt of information required to complete the single audit, which may indicate that certain account reconciliations and analysis necessary for accurate finance reporting were not in place during the year. This was due to turnover with the Finance Department during the year. The Society has hired a new director of finance as well as other personnel with the department subsequent to June 30, 2007.

Recommendation: Under the direction of the Director of Operations, the auditors recommend that the Society continue consideration of the following:

- Develop a clear-cut plan for the accounting department that provides the following:
  - Assessment of the operations of the department to determine that it is appropriately staffed for the amount of work that it is expected to perform and that personnel are properly supervised and trained
  - Definite placement of responsibility and for lines of authority within the department
  - A division of duties, wherever practicable, between the authorization and record keeping so that the activities of one employee act as a check on those of another
  - Forms, documents, and procedures that provide for controls and proper approvals
  - Monitoring for compliance with policies, procedures, and budgets
  - Periodic review of the internal control system.
- Assess the current accounting software to determine that it is being utilized to its full potential and sufficient to provide for the needs of the Society.
- Develop an accounting manual which should include copies of forms and formats used, documentation of the accounting software, as well as a monthly checklist that details all recurring journal entries, account reconciliations, and standard reports. The documentation should include how transactions, such as contributions, are communicated to the accounting department. The manual should also include how various departments are to communicate information to the accounting department. In addition, a monthly closing checklist should be developed which includes a checklist of standard journal entries, account reconciliations, standard reports, and external reporting requirements and deadlines. This checklist should be completed on a monthly basis by the director of finance and provided to executive director and treasurer along with the monthly financial statements and budget to actual variance analysis.
- That the vendor master file be reviewed for completeness, the existence of vendors be confirmed, the file be purged of vendors without recent activity and that new vendors be verified.
- Segregate the financial reporting for the Arlington Hotel from the Society's operations for internal financial reporting purposes. Consideration should be given to establishing a separate payroll account for Arlington.
- The Society should develop guidelines for expense reimbursements, which include requiring program directors to closely review all expense reports for proper documentation before approval and the accounting department should reject reports not meeting the policy and not appropriately approved. The executive director's expenses reports should be reviewed by the treasurer on a quarterly basis.

Current Status: Implemented.

PY Comment 2: Credit Cards and Employee Reimbursements

Condition: The Society did not have a formal credit card usage policy, and a review

of credit card statements and employee reimbursements showed instances where charges were paid without sufficient approvals by an appropriate level of management. This was also a prior year management letter comment.

Recommendation: The Society should develop a formal credit card usage policy and all credit card statements and reimbursements should be approved by a department head prior to payment.

Current Status: Implemented.

PY Comment 3: Investments

Condition: The Society did not have a formal policy for management of their investment funds.

Recommendation: The Society should develop cash forecasts and a cash management policy to assist in managing both its cash and investments. The forecasts will allow the Society to provide for more accurate determinations of operating cash requirements, assist in anticipating when investments may need to be liquidated in order to provide cash for operations, and for the prudent investment of excess cash. The management policy should consider the cash flow of the Society throughout the year and provide guidance as to how cash in excess of current needs is invested on both and a short term and long term basis. The policy should specifically address how receipts from bequests and other significant unrestricted contributions will be managed giving consideration to the future needs of the Society.

Current Status: Implemented.

PY Comment 4: Password Rotation

Condition: The Society never rotates passwords on its network and employees learn each other's password over time. Using someone else's password, a disgruntled employee could delete, alter or damage critical data, or could send e-mails that are damaging to individuals and/or the organization. A good password rotation policy is designed to reduce the risk that one employee could log into the system as another. This was also a prior management letter comment.

Recommendation: The Society should ask their network vendor to configure automated password rotation services on their network, which is a feature of their system.

Current Status: The Society has taken this matter up with its Contractual Information Technology consultants. The matter is on the long-term agenda for solution but the effective solution to this issue is at great financial cost vs. other Information technology priorities on the agenda.

PY Comment 5: Payroll Reconciliation

Condition: The Society's payroll is not reconciled on a regular basis to the 941 tax returns. This was also a prior management letter comment.

Recommendation: The Society should review and reconcile to the 941 tax system their payroll expense account quarterly, and should also do an annual reconciliation in a timely manner with detailed explanations of all significant variances.

Current Status: Implemented.

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SAN FRANCISCO STATE UNIVERSITY

San Francisco State University (the University) was establish as a campus of the California State University under the State of California Education Code to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As one of 23 campuses in the California State University System (the System), the University is included in the financial statements of the System. Responsibility for the University is vested in the Trustees of the System (the Trustees) who, in turn, appoint the Chancellor, the Chief Executive Officer of the System, and the President and Chief Executive Officer of the University. The University provides instruction for baccalaureate and masters degrees and certificate programs and operates various auxiliary enterprises such as student dormitories, student unions, and parking facilities. In addition, the University administers a variety of financial aid programs, which are funded primarily through state and federal programs. The following single audit findings reflect findings for the System as a whole.

Total Amount Received From the City in FY 2007-08: $3,929,540

Federal Funds Received From Public Health in FY 2007-08: $14,125

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings:

Finding 07-01: Financial Reporting

Condition: There were numerous adjustment and reclassification journal entries to the campus and systemwide financial statements. These adjustment and reclassification journal entries, which were more than inconsequential for financial reporting purposes, resulted from deficiencies in the internal control over financial reporting. These issues were identified in particular, but not exclusively, at Fullerton, Fresno, and Stanislaus which hindered each campus' ability to complete accurate financial reporting packages in accordance with GAAP and the reporting timelines established by the Chancellor's Office. The issues noted at Fullerton and Fresno included the following:

- Incomplete account reconciliations.
- Lack of analysis of financial statement line items.
- Lack of support of components comprising financial statement amounts
- Detailed listings and support ledgers that do not support amounts reflected in the financial statements.
- Inaccurate completion of the required financial reporting packages, including various misclassifications with the financial reporting packages initially provided by management.

- Insufficient understanding of U.S. generally accepted accounting principles, including the reporting of accounts payable, encumbrances, and deferred revenues.
- Insufficient or untrained staff.

The issues noted at Stanislaus included the following:

- The individual business units within the PeopleSoft (PS) general ledger system had not been in "sync" for the past three years since the implementation of PeopleSoft in fiscal year 2005. This affected numerous financial statement account balances. At the direction of the Chancellor's Office, the campus made the necessary adjustments to the PS business units after year-end.
- Certain GAAP account balances could not be properly reconciled during the year or at year-end as a result of the significant number and age of the reconciling items. The most significant accounts affected were cash, investment, accounts receivable, and accounts payable.

Because of these issues, it was extremely difficult for campus management to perform a meaningful analysis of GAAP financial statement line items. Throughout the audit process, numerous and significant adjustments were made to the GAAP account balances. As a result, the campus did not meet the reporting timeline set forth by the Chancellor's Office. The campus' reporting package was submitted approximately one month after the due date.

Recommendation: Management of the aforementioned campuses should evaluate the current process in place for the preparation of GAAP financial reporting packages, as well as the skill set, training, and time availability of the individual performing this function. Management should also consider additional levels of accountability for the timely and accurate preparation of the required financial reporting packages and schedules.

Current Status: California State University management will develop an action plan to address the issues identified. The Chancellor's Office will work with campus executive officers and their staff to evaluate the current process in place for the preparation of GAAP financial reporting packages and develop a plan to remedy weakness in the process and increase levels of accountability.

Finding 07-02: Information Technology – User Access

Condition: Based on the review of security and access privileges in-scope applications and systems at the campuses, certain obsolete, inactive, or otherwise inappropriate user profiles have not been disabled. Below is the list of the issues which were present in varying degrees at each of the campuses tested in the current year:

- Users have inappropriate system administrative access to the PeopleSoft Finance and HCM applications and the PeopleSoft database.
- Users have inappropriate access to override the matching rules within the PeopleSoft Finance application.
- Users have inappropriate access to enter and modify grades within the PeopleSoft Finance application.
- Users with system administrative access to PeopleSoft FIN application have inappropriate access rights.

The access issues noted above can potentially expose the campuses to an increased risk of unauthorized access to transactions and data in the various systems in the absence of effective controls over system access. This impact is heightened due to the existence of unauthorized access across all of the campuses' in-scope applications.

Recommendation: Management should delete or disable the inappropriate profiles. Management should implement a control to perform, at a minimum, an annual periodic review over user access within all modules and direct access to the supporting PeopleSoft databases. Management should document and maintain evidence of this review. Moreover, IT Policies and Procedures should be updated to reflect the required user access review.

Current Status: Policies and procedures for appropriate access control are presently in place at all 23 campuses and the Chancellor's Office. Campuses will be reminded of these policies and procedures and the importance of periodic review of the application of these policies and procedures. Campuses will also be instructed to review their access policy to ensure they are in compliance, perform periodic reviews of the user access within PeopleSoft and to document evidence of this review.

Management Letter Comments: None

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SAN FRANCISCO STUDY CENTER

San Francisco Study Center (Study Center) is a nonprofit organization dedicated to educational and technical assistance to community groups. The Study Center services other nonprofit groups with complete editorial and graphic arts programs, marketing and public relations plans. The Study Center also provides fiscal management or acts as fiscal sponsor for various charitable programs by providing capacity building, accounting, and administrative supervision.

Total Amount Received From the City in FY 2007-08: $3,719,903

Federal Funds Received From Public Health in FY 2007-08: $295,611

Single Audit Reviewed: Fiscal year ended December 31, 2007

Single Audit Findings: None

Management Letter Comments: None

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SAN FRANCISCO SUICIDE PREVENTION, INC.

San Francisco Suicide Prevention, Inc. (SFSP) was established in 1962. SFSP provides to the people of San Francisco, 24-hour telephone crisis intervention, non-crisis telephone counseling, information and referral services, and special outreach programs for minorities and the hearing impaired. The mission of San Francisco Suicide Prevention is to provide emotional support, assistance and intervention as necessary to persons in crisis and those impacted by them, without regard to race, age, religion, gender or sexual orientation.

Total Amount Received From the City in FY 2007-08: $583,422

Federal Funds Received From Public Health in FY 2007-08: $76,694

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Finding: None

Management Letter Comments: None

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TENDERLOIN HEALTH

Tenderloin Health is a nonprofit service and referral agency organized to meet the needs of the diverse and often ignored residents of San Francisco's Tenderloin neighborhood. Tenderloin Health was created with the completion of the merger of Continuum HIV Day Services and Tenderloin AIDS Resource Center in fiscal year 2007. The mission of Tenderloin Health is to lessen the incidence of HIV infection, disease progression and homelessness through education, prevention, care, advocacy and referral.

Total Amount Received From the City in FY 2007-08: $5,055,688

Federal Funds Received From Public Health in FY 2007-08: $699,560

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings:

Finding 07-1: Allowable Costs/Cost Principle: Supportive Housing for Chronically Homeless Persons Exiting Criminal Justice Institutions, CFDA#: 16.580

Condition: Tenderloin Health allocated a higher salary percentage than allowed by budget in the Supporting Housing for Chronically Homeless Persons Existing Criminal Justice Institutions program.

Recommendation: Payroll allocation for employees should match with approved budget amounts.

Current Status: Allocations are now based on approved budgets and charges to grants are based on actual services performed.

Finding 07-2: Allowable Costs/Cost Principles: Supporting Housing for Chronically Homeless Persons Exiting Criminal Justice Institutions, CFDA#: 16.580

Condition: Tenderloin Health charged salaries and wages based on budget for 3 employees for the first 3 months of the grant period in the Supporting Housing for Chronically Homeless Persons Existing Criminal Justice Institutions program.

Recommendation: Salaries and wages should be charged based on actual services performed.

Current Status: Allocations are now based on approved budgets and charges to grants are based on actual services performed.

Finding 07-3: Reporting: Tenderloin Area Center of Excellence in HIV/AIDS, CFDA#: 93.914

Condition: Tenderloin Health was not recording grant-related expenditures on a timely basis for the Tenderloin Area Center of Excellence in HIV/AIDS (TACoe) program.

Recommendation: Record expenditures in the proper month for cost reimbursement.

Current Status: The finding has been corrected with the newly established processes. Expenditures are being recorded in the month services are provided and reporting to grantors is being done in a timely manner.

Finding 07-4: Allowable Costs/Cost Principles: Ryan White Title III Outpatient EIS Program, CFDA#: 93.918

Condition: Tenderloin Health allocated a higher contract expense percentage to the grant than the agreed upon budgeted amount for the Ryan White Title III Outpatient EIS program.

Recommendation: Contract expense allocation should match with approved budget.

Current Status: If expenditures are anticipated to be higher than contract, approval will be received before action taken.

Finding 07-5: Housing Opportunities for Persons with AIDS Program, CFDA#: 14.241

Condition: U.S. Department of Housing and Urban Development issued an audit report dated July 13, 2007 listing significant deficiencies in Tenderloin Health's accounting for calculation of rents, financial management, and annual performance reporting.

Recommendation: Not indicated

Current Status: The new systems in place require direct charges to specific contracts based on either FTE's or square footage, e.g. any charges for indirect costs are listed as such in the grant proposal and will be reported for reimbursement accordingly.

Finding 07-6: Minority SA/HIV/Hep Strategic Prevention Framework, CFDA#: 93.243

Condition: Department of Health and Human Services – Substance Abuse and Mental Health Services Administration issued an audit report dated June 5, 2007, listing significant deficiencies in Tenderloin Health's accounting for financial management, cash management, and allowable costs/cost principles.

Recommendation: Not indicated

Current Status: The new systems in place require direct charges to specific contracts based on either FTE's or square footage, e.g. any charges for indirect costs are listed as such in the grant proposal and will be reported for reimbursement accordingly.

Finding 07-7: Major Programs Tested

Condition: Certain charges for reimbursement were based on budgeted amounts during the year and certain expenses were allocated at a higher percentage than estimated in original budgets sent to grantor agencies. However, total expenditures for the entire program year appeared reasonable and appeared supported by actual services provided for the major programs tested.

Recommendation: Not indicated

Current Status: The new systems in place require direct charges to specific contracts based on either FTE's or square footage, e.g. Any charges for indirect costs are listed as such in the grant proposal and will be reported for reimbursement accordingly.

Management Letter Comments: None

Prior Year Management Letter Comments:

PY Comment 06-1: Tenant Documentation

Condition:

- 14 out of 20 HOPWA tenant files sampled lacked supporting documentation on tenant eligibility (e.g. proof of income certification and verification).
- 5 out of 20 files could not be located.

Due to lack of available documentation, the auditors were not able to conclude whether TARC had complied with the tenant selection criteria prescribed by the program agreement.

Recommendation: TARC should ensure that documents supporting tenant eligibility are kept in the tenant's file. This ensures that evidence supporting TARC's compliance with the program agreements are available for any regulatory audit.

Prior Year Status: Tenderloin Health's housing program has completely revamped its intake system. All documents supporting tenant eligibility are now kept in the tenant's files. Instead of case managers keeping files, all HOPWA files reside on site with the HOPWA manager. This ensures that evidence supporting Tenderloin Health's compliance with the program agreements are available for any regulatory audit. The system also ensures that no tenants are allowed to move in until all paperwork has been verified and reviewed for clearance by the program manager. The intake process includes filing of all required documentation, tenant eligibility, income certification and verification.

PY Comment 06-2: Tenant Rent Calculation

Condition:

- 14 out of 15 available HOPWA tenant files sampled lacked supporting calculation as a basis for tenant's portion of rent.
- 4 out of 15 HOPWA tenant files sampled have variances when tenant payments were compared to the auditor's rent payment recalculation based on the initial intake income noted from the tenant files.

Recommendation: TARC should ensure that supporting rent calculations are kept in the tenant file.

Prior Year Status: Tenderloin Health's housing program has completely revamped its intake system. All documents supporting tenant eligibility are now kept in the tenant's files. Instead of case managers keeping files, all HOPWA files reside on site with the HOPWA manager. This ensures that evidence supporting Tenderloin Health's compliance with the program agreements are available for any regulatory audit. The system also ensures that no tenants are allowed to move in until all paperwork has been verified and reviewed for clearance by the program manager. The intake process includes filing of all required documentation, tenant eligibility, income certification and verification.

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

The University of California, San Francisco (UCSF) is one of the 10 campuses that comprise the University of California (University) public state-supported institution. UCSF is the only campus of the University dedicated solely to graduate and professional study in the health sciences. Part of the University since 1873, UCSF is a campus known for its scientific discoveries, teaching prowess and patient care. The following single audit findings reflect findings for the University as a whole.

Total Amount Received From the City in FY 2007-08: $12,180,382

Federal Funds Received From Public Health in FY 2007-08: $2,032,602

Single Audit Reviewed: Fiscal year ended June 30, 2007

Current Year Single Audit Findings:

Finding 07-01: Untimely Cost Transfers: National Science Foundation, CFDA#: 47.070; Health and Human Services, CFDA#: 93.389, 93.837, and 93.855

Condition: Cost transfer testing was performed at three different campuses. For one campus, 9 out of 65 cost transfers were completed more than 120 days after the original date of the transaction. NIH Grants Policy Statement states that cost transfers should be completed within 90 days of when the error was discovered. NIH policy does not apply to non-NIH grants; however, the NIH standards were used to test the timeliness of all transfers. The auditors could not determine the date of discovery of the errors.

Recommendation: While the auditors could not determine if any of the transactions were untimely as defined by NIH policy, the University should enhance its focus on achieving timely cost transfers to ensure compliance with the agency guidelines.

Current Status: The campus will add an edit to the financial system to identify cost transfers into federal funds that are over 90 days after the original transaction date. The Office of Extramural Fund Management (EFM) will monitor and review these transactions to ensure compliance with NIH guidelines.

Campus training courses will be updated to further emphasize the rules and procedures on the allowability and allocability of expenses. Regular reminders will be sent out through the Office of Research Administration (ORA) “hints and tips” listserv to remind campus departments to post expense to the appropriate account at the time orders are placed or when other transactions are initiated.

EFM will continue to work with campus departments to promote monthly reviews with the Principal Investigators through meetings and reports to ensure expenses are booked on the appropriate funds and that errors are identified and corrected in a timely manner.

Finding 07-02: Ensure Title IV Funds Are Returned In a Timely Manner

Condition: Title IV testing was performed at two different campuses and 18 out of 60 calculations tested were not completed within 30 days and 6 out of the 60 tested were returned over 45 days with delays of 46 to 217 days. Institutions with students receiving Title IV aid must return all unearned portions of aid to the Department of Education or to the lender within 45 days after the date it determines that the student withdrew. Institutions must also calculate the amount of aid to be return to the Department of Education or to the lender within 30 days after the date it determines that the student withdrew.

Recommendation: Management should institute controls to ensure that all students who owe Title IV funds are identified on a timely basis and the amounts are refunded to the Department of Education. In particular, a reconciliation should be prepared between the Registrar's Office and the Financial Aid Office to determine that all students who have dropped courses are accounted for, and thus, that the return of unearned Title IV funds are on a timely basis. In addition, a policy should be in place such that all departments and the Registrar are aware of the turnaround time required for the return of Title IV funds. This will reduce the turnaround time of the withdrawal/cancellation form, allowing the Student Financial Aid Office to complete the return calculation and authorize the refund within federal time requirements.

Current Status: The campus interpreted the guidance, issued by the Department of Education, with regard to the longer time frame allowed for the return of Title IV funds to the Department (from within 45 days rather than the original 30 days) to apply to the calculation of the refunds as well. In April 2007, the campus received clarification that the calculations were to be performed no later than 30 days after the effective withdrawal date. Upon receipt of this clarification, the campus implemented a change to its processing procedures immediately.

The campus Financial Aid Office has updated its Policies and Procedures to accurately reflect that the correct timeframe for performing the Return of Title IV calculation is 30 days. The Financial Aid Office will enhance the coordination with the Registrar to identify all students who have dropped courses so that unearned Title IV funds can be returned on a timely basis. The campus Financial Aid Office compliance committee will also review future guidance and policy changes to ensure their correct interpretation and implementation.

A campus-wide memorandum will be issued, alerting campus offices of the importance of timely reporting of withdrawals/cancellations so that the campus can comply within the requirement timeframe for returning Title IV funds.

Finding 07-03: Timely Submission of Student Status Changes

Condition: Student status change testing was performed at two different campuses and there were 9 instances out of 60 students selected for testing, where students'

status changes were not reported to the National Student Loan Date System (NSLDS) within the prescribed 30-day timeframe. Delays of 64 to 99 days were noted.

Recommendation: The Registrar should compare the NSLDS list to a list of students with FFELP loans and whose status has changed since the last NSLDS report. In addition, personnel performing the return of federal funds process should notify the Registrar regarding withdrawn or less than half time students on a timely basis. This will ensure timely submission of student status changes to the NSLDS by the Registrar.

Current Status: The campus Office of the Registrar has developed a revised reporting schedule with the National Student Clearinghouse analysts to ensure compliance with the 30-day reporting to NSLDS. The campus Financial Aid Office will establish a return of federal funds staff liaison with the Office of the Registrar to ensure timely submission of student status changes.

Finding 07-04: Cash Management – Delays in Returning Federal Funds

Condition: A review of refund initiation dates for a sample of returns of Federal Family and Education Loan (FFEL) Funds to the Federal Government at one campus, 13 of 20 instances in which FFEL Funds were not returned to the Government within the necessary timeframe of 13 days from the receipt of the funding. The required funds were returned up to 25 days late.

Recommendation: The University should implement more stringent monitoring and review procedures to ensure that all required funds are returned within the required time period to comply with federal regulations.

Current Status: The following practices and procedures have been implemented by the campus to ensure the timely return of unused funds to the federal government:

- The Loan Services Supervisor conjointly performed the task with the processor for three months to ensure that the processor understood and performed all tasks according to federal requirements. The Loan Services Supervisor is now the back-up processor for the task and the Assistant Director is training to be an additional backup.
- An independent monthly random sampling of a minimum 5% of Electronic Funds Transfer (EFT) returns as well as 5% minimum of disbursements to validate that funds are processed within the required time has been put in place. This sampling is performed by the Assistant Director and submits the results on a monthly basis to the Director.
- Documentation was improved concerning the EFT return processes and step-by-step instructional procedures were updated to aid in eliminating future non-compliance situations.
- Improvement has been made to essential printed reports to streamline the process and to prevent the possibility of errors.
- Further investigation will be made into the possibility of automating the process.

Prior Year Single Audit Findings:

PY Finding 06-01: Cash Management-Delays in Returning Federal Funds

Condition: During the review of the refund initiation dates of a sample of returns of Federal Family and Education Loan (FFEL) funds to the Federal Government at one campus, the auditors noted two instances in which FFEL Funds were not returned to the Federal Government within the necessary timeframe of 13 days from receipt of the funding as required by federal guidelines. The required funds were returned up to 3 days late.

Recommendation: The University should implement more stringent monitoring and review procedures to ensure that all required funds are returned within the required time period to comply with federal regulations.

Current Status: Similar instances of noncompliance were noted in 2007. See Finding 07-04.

PY Finding 06-02: Inaccurate FISAP Data

Condition: In connection with the Fiscal Operations Report and Application to Participate (FISAP) testing, the auditors tested the underlying data per the Income Grid to ensure students are being accurately reported. For one campus location where 60 students were tested, the auditors noted that the income reported on the FISAP was inconsistent with the amounts reported by the students. The auditors found that this was caused by a computer system reporting error.

Recommendation: Although management rectified the system problem, it should continue to check the output data to ensure their problem does not recur and go undetected.

Current Status: Corrective action was taken. No instances of noncompliance noted in the current year.

PY Finding 06-03: Untimely Cost Transfers

Condition: For two of the four different campuses tested where a total of 40 cost transfers were selected for testing, the auditors noted 18 instances in which the transfers were completed more than 120 days after the original date of the transaction. The auditors could not determine the date of discovery of the error.

Recommendation: Although they could not determine if any of the transfers were untimely as defined by the grant, the auditors recommended that the University enhance its focus on achieving timely cost transfers to ensure compliance with the agency guidelines.

Current Status: Similar instances of noncompliance were noted in 2007. See Finding 07-01.

PY Finding 06-04: Time and Effort Reporting

Condition: The auditors tested Personnel Activity Reports (PARs) at four different campuses. During the review of personnel expenditures to confirm level of effort, the auditors requested PARs of all the employees. The University was unable to provide PARs for 13 of the 20 personnel tested for one of the four campuses. The auditors determined that PAR forms were not used by the campus during part of the reporting period.

Recommendation: Time and effort reporting needs to be done in a timely manner to support all effort charged to grants.

Current Status: Corrective action was taken. No instances of noncompliance noted in the current year.

PY Finding 06-05: Account Reconciliations

Condition: The University uses a third party billing agency for collecting outstanding student loan balances, and receives via CD, the transaction history details of all students' loans, such as the outstanding loan balances and interest. On a monthly basis, the individual campuses perform reconciliation between the amounts disbursed to the students per Integrated Student Information System to the amount disbursed as recorded by ACS (the University's outside Perkins loan servicer). For one campus, the auditors noted there were no reconciliations between the ACS monthly reports and the general ledger for all loans outstanding at the end of the fiscal year. This could result in the loan receivable balances per the general ledger for Federal loans analyzed by students as unascertainable, and the balance per the ACS ledger may not be fairly and properly stated.

Recommendation: The University should implement procedures to ensure that reconciliations are being regularly performed. The ACS monthly reports should be reconciled to the general ledger to ensure that it is fairly stated and outstanding receivable balances are followed up and collected. In addition, long standing unreconciled differences should be reviewed and investigated.

Current Status: Corrective action was taken. No instances of noncompliance noted in the current year.

Management Letter Comments:

Comment 1: Evidence of Review and Timeline of Key Controls – Control Deficiency

Condition: As part of the testing over the operating effectiveness of key controls at the Office of the President, 10 campus locations and five academic medical centers, the auditors noted certain key reconciliations and reports that lacked evidence of the review process and/or were not consistently reviewed within a reasonable time period. Specifically, exceptions were found in the treasury, purchases and payables, payroll and general ledger cycles. The review process is critical in ensuring appropriate segregation of duties and the timely identification and resolution of potential errors.

Recommendation: Management at the Office of the President and each campus location and academic medical center should formally implement policies highlighting appropriate evidence retention procedures along with formal review schedules over each key account and report.

Current Status: This observation was made at four campuses, two National Laboratories and two units at the Office of the President. At each location, management had agreed with the observation and has indicated that it will implement policies and procedures to ensure appropriate and timely review, approval and documentation of identified key controls.

Comment 2: Periodic Review of IT Professional and Application User Access – Control Deficiency

Condition:

- Formal periodic reviews of user access rights are not consistently performed by IT and business management across all locations to ensure that access rights are commensurate with existing roles and responsibilities.
- Not all users with powerful access rights are reviewed as part of these periodic assessments.
- Not all financially significant applications are included in these periodic reviews.

Recommendation: In regard to IT professional users, IT management at each location should conduct a formal, periodic review of privileged system users. IT management should also consider whether inappropriate users identified through this review have performed unauthorized transactions during the interim period that may need to be investigated and resolved.

In regards to IT application users, functional owners or business management should implement a formal periodic review process to ensure that these individuals' access rights are commensurate with their current roles and responsibilities. Business management should also work together with IT management, and consider whether inappropriate users identified through this review have performed unauthorized

transactions during the interim period that may need to be investigated and resolved.

Documentation evidencing periodic reviews and assessments over any identified inappropriate access should be retained.

Current Status: This observation was made at three campuses and three medical centers. At each location, management has agreed with the observation and has indicated that it will conduct formal, periodic review of system users with privileged access to key systems, as well as individual users of these systems, to ensure appropriateness of access rights. Management has indicated that documentation to evidence these reviews will be retained.

Comment 3: Risk Assessment and Monitoring of Sensitive Data Access – Control Deficiency

Condition: Database Administrators (DBAs) currently have the ability to directly access and modify transaction data, and IT management has not performed a risk assessment at every location to determine whether that access is appropriate, and whether activities would need to be monitored.

Recommendation: IT management at each location should perform appropriate risk assessments over sensitive data sets and tables relating to all significant systems and accounts. Based on this risk assessment, IT management should also consider implementing formal monitoring of activities performed by database administrators and system administrators for appropriateness.

Current Status: This observation was made at two campuses, four medical centers, and at the Office of the President. At all locations, management has agreed with the observation and has indicated that it will perform periodic risk assessments of sensitive data and tables for key systems and accounts. Management has agreed to investigate implementing independent computer systems to monitor activities of database and system administrators with the ability to access or modify key systems and transaction data.

Prior Year Management Letter Comments:

University-Wide:

PY 2006 Comment 1: Changes to Communication of Internal Control Related Matters

Condition: Because of Statement of Auditing Standards (SAS) No. 112 issued on May 2006 regarding Communicating Internal Control Related Matters identified in the audit, there were changes in the process for evaluating deficiencies that come to the auditors' attention and bring the thresholds for reporting control deficiencies in line with the thresholds required for public companies. This effectively lowered the bar for reporting significant deficiencies that could include items not previously identified as

control deficiencies to become material weakness brought about, not by deterioration in the University's internal control, but by the new definition under SAS 112. Common areas of potential weakness include, among others, controls in place over the financial statement closing process, and information technology.

For the University, any identified significant deficiencies and material weaknesses in internal controls would be specified in the Report of Independent Auditors on Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, which is part of the A-133 report.

Recommendation: Management should assess the University's potential exposure to the new requirements of SAS 112 by considering previous audit adjustments and known control weaknesses, identified by management or other sources, then consider what, if any, control improvements will be made.

Recommendation: Implemented

Medical Centers:

PY 2006 Comment 2: Enhance Procedures for Recording the Revenue Accrual

Condition: Due to the time needed to properly capture charges for patient services revenue, it is typical in the healthcare industry that there will be a time lag of several days between the provision of the service and the related billing. While the medical centers have established internal policies for timely recording of patient charges, the auditors noted during their audits of the medical centers that some departments did not comply with those policies. Unrecorded patient charges create the risk that revenue will be understated. During the year end audit, the auditors noted that processes to estimate the unrecorded revenue were sufficient to materially record revenues; however, three medical centers recorded adjustments as a result of audit procedures to increase their revenue accrual.

Recommendation: Management should focus on timely recording of patient charges and enhance its processes for estimating the revenue accrual to ensure all unrecorded patient charges are evaluated in the process.

Current Status: Implemented

PY 2006 Comment 3: Differences: UCLA General Ledger and the Campus General Ledger

Condition: The auditors noted differences between the general ledgers separately maintained by the UCLA Medical Center and the Campus. The differences between these two general ledgers have not been routinely investigated or reconciled to determine the proper balance, an indication of an internal control weakness.

Recommendation: The Medical Center and the Campus should meet at least quarterly to review the reconciliation and investigate differences between the general ledgers. As part of the control process, both parties should formally sign a document indicating they agree to and accept the reconciliation.

Current Status: In progress.

PY 2006 Comment 4: UCSD General Ledger Accounts-Improve Reconciliation Process

Condition: The UCSD Medical Center maintains separate financial systems to support the unique accounting and financial reporting needs of that organization. On a monthly basis, that information is forwarded to the campus for recording in the campus general ledger, and for subsequent transmittal of UCSD consolidated financial information to the Office of the President. During the audit, the auditors noted that certain financial information had not been reconciled between the Medical Center's financial system and the Campus financial system. Three instances of account/fund combinations were apparently not reconciled due to miscommunication between Medical Center and Campus personnel in the respective finance and accounting offices. While the vast majority of the financial information for the Medical Center is reconciled completely on a monthly basis by the Controller of the Medical Center, all accounts that are applicable to the Medical Center should be included in that process to provide effective control.

Recommendation: There should be ongoing communication between the Campus and Medical Center to ensure that all accounts are properly assigned for reconciliation and that reconciling items are resolved in a timely manner.

Current Status: Implemented.

PY 2006 Comment 5: Medical Center and Campus Accounts at UCD-Improve Reconciliation Process

Condition: Based on the unique requirements of the University, a common general ledger is shared by both the UCD Medical Center and the UCD campus. The Medical Center extracts information from the general ledger into an Excel spreadsheet in order to prepare its standalone financial statements. During the current year audit, the presentation of the information in the spreadsheet made it difficult to reconcile the extracted information into the general ledger.

Recommendation: At least annually, personnel from the Medical Center and Campus should meet to ensure that a clear trail is documented between the extracted information as compared to the shared general ledger.

Current Status: Implemented.

Campus:

PY 2006 Comment 6: Reconciliation of Foreign Bank Accounts at UCB

Condition: The Campus maintains foreign bank accounts for its research operations and maintains limited staff and students in the locales for such research operations. These staff & students withdraw funds from the foreign bank accounts that the Campus replenishes on an as-needed basis. The auditors noted that reconciliations are not being performed over these foreign bank accounts.

Recommendation: The administration should immediately put into place a formal policy outlining guidelines for the preparation and review of bank reconciliations for all foreign bank accounts. Additionally, a copy of all monthly bank statements should be obtained by the Campus accounting department for purposes of this reconciliation process.

Current Status: Implemented.

PY 2006 Comment 7: Recording of Pledges Receivables at UCB

Condition: The auditors noted that the University recorded a contingent pledge of $10 million as a pledge receivable, without complying with University policies and applicable accounting principles. The accounting guidance of GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions" states that the University should generally recognize revenues at the same time that they recognize receivables when all applicable eligibility requirements are met. In this instance, there was not sufficient evidence that the University met the eligibility requirements. This could result in the incorrect recognition of the pledges and affect the University's financial reporting.

Recommendation: Pledges should be supported by adequate documentation from donors clearly indicating collectability and management should also ensure that eligibility requirements are met before pledges are recorded. Management should have a process for reviewing pledges recorded above an established threshold to ensure proper accounting.

Current Status: Implemented.

UNIVERSITY OF THE PACIFIC

The University of the Pacific (UOP) was founded in 1851 and offers undergraduate and graduate programs of higher education through three campuses located in Northern California. Funding sources generally include tuition and fees charged to students, income of auxiliary enterprises, grants, contracts, gifts, and bequests.

Total Amount Received From the City in FY 2007-08: $712,864

Federal Funds Received From Public Health in FY 2007-08: $620,010

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings:

Finding 07-1: Reporting of Investments

Condition: The UOP's investments in hedge funds and private equity have grown to $24 million at June 30, 2007, and are expected to grow in the future. These investments are reported at fair value in the UOP's financial statements. Fair value is estimated by management based upon the most current information provided by the general partner. Professional standards state that receiving a confirmation or statement from the general partner without underlying detail does not constitute appropriate support for management or auditors. Management must have sufficient transparency into its investments to evaluate and independently challenge the fund's valuation as of the UOP's balance sheet date. For a majority of its hedge funds and private equity investments, general partners declined to supply June 30, 2007 underlying investment detail to management or the auditor—KPMG. As a result, management had to accumulate other information to help and challenge valuations provided by the general partners.

Recommendation: As the magnitude of these types of investments continues to grow, the UOP management should continue to improve its process of obtaining and documenting its understanding of the underlying investments in its portfolio, and its method of estimating fair values.

Current Status: The UOP's management agrees it must undertake an established and systematic process of due diligence and inquiry sufficient to understand the fair value of the underlying investments at the end of the UOP's fiscal year. Management agrees that its responsibility of due diligence does not end with the receipt of audited financial statements. Accordingly, to provide the UOP leadership and others who rely on the UOP's financial statements with sufficient assurances that the values represented are accurate, the members of the Investment Committee of the Board will be advised of this comment, a summary of the process developed for this due diligence process and inquiry will be reviewed with them, and they will be requested

to review the matter with its endowment consultant to ensure all prospective alternative investment managers are committed to provide adequate and timely disclosure of valuation information.

Finding 07-2: Pledges Receivable

Condition: When cash payment contributions are received, there is not a formal process in place to ensure that individual payments are properly identified and applied to the related outstanding pledges receivable balance. In certain instances payments had been incorrectly recorded as new cash gifts in the current year instead of being properly applied to the related outstanding pledge balance.

Recommendation: The UOP should implement formal procedures to ensure that cash payments are properly applied to the related outstanding pledges receivable balance.

Current Status: Management is committed to balancing pledge fulfillment accounting with the need to appropriately record gifts in accordance with donor directive and intent. The UOP gift entry staff routinely search for outstanding pledges when gift funds are received from donors. However, when funds provided by donors are not expressly noted as pledge payments or are not expressly directed to the same purpose for which the donor's outstanding pledge exists, business practice has been to record a new outright gift. The UOP will continue to record gifts in accordance with donor directives but will adjust business practices for funds that have been received without explicit usage instructions. Whereas undocumented gift usage would have previously resulted in a deposit to either a "holding" account or an unrestricted use designation, funds will now first be applied to any outstanding pledge balance. However, for donors who send in specific directed gift funds with usage indicators that are different from outstanding pledges those funds will continue to first be applied to the newly directed fund. To balance this, the Associate VP for Advancement will be notified of the outstanding pledge balance that remains and the new directed gift instruction from the donor in order to effect confirmation of the pledge intention and pledge validity with the donor.

Finding 07-3: Accrued Liabilities

Condition: The UOP has a process in place to identify expenses that must be accrued for at year-end. However, this process may not capture construction-related expenses. However, certain construction-related expenses had not been properly accrued for at year end. This resulted in an audit adjustment to increase accrued liabilities by $887,000, which was recorded by the UOP as of June 30, 2007.

Recommendation: The UOP should expand their existing process to specifically include construction-related expenses. This is particularly important when the UOP has significant construction projects underway.

Current Status: The UOP agrees with the recommendation. Existing processes to accrue liabilities will be expanded to include specific inquiries of project managers for construction projects to insure that all liabilities relating to construction activities are properly recorded at year end.

Finding 07-4 Obligation for Implicit Rate Subsidy for Retirees

Condition: The UOP has a healthcare plan which offers medical and dental benefits to both active employees and retirees. The retirees' contributions to the plan are based on a blended rate, which is determined based on the combined experience of both the active employees and the retirees. However, the actual cost of providing benefits to the retirees is greater than their contributions at the blended rate. In effect, the UOP is subsidizing a portion of the cost of the retiree benefits. In accordance with Statement of Financial Accounting Standards No. 106, *Employers Accounting for Post Employment Benefits Other Than Pensions* (SFAS106), this implied rate subsidization of retirees should be recorded as an obligation equal to the difference between the expected cost of providing the retirees' benefits and the retirees' expected contributions at the blended rate. SFAS 106 was effective for the UOP for the fiscal year ended June 30, 1994, but such obligation had never been recorded by the UOP. Once identified, management commenced an analysis to estimate the liability. This resulted in a proposed adjustment to restate beginning assets by $2,000,000 in order to properly record the UOP's obligation related to prior years'. This adjustment was determined by management to be immaterial and was not recorded in the June 30, 2007 financial statements.

Recommendation: As part of the UOP's financial reporting process, the auditors recommend that formal procedures are implemented to ensure that applicable accounting standards are adopted when required.

Current Status: The UOP agrees with this finding. After reviewing the results of the actuarial study conducted at the UOP's request regarding this issue, the UOP will evaluate whether and to what extent an adjustment needs to be recorded for the FY 2008 financial statements. If the adjustment required is determined to be material, appropriate action will be taken. The UOP has been exploring a new benefit to its employees to provide pre-tax funds after retirement to pay for qualified health care costs. Because participation in the plan requires all current retirees (Medicare eligible or not) to participate in a special retiree group, the UOP's participation in this program is expected to eliminate the implicit rate subsidy.

Prior Year Single Audit Findings

PY Finding 06-1: Monthly Reporting of Student Status Change

Condition: Of the 22 student status changes reviewed, the auditors found six instances when the status changes for the students were not included on the most current roster file, and therefore were reported late, per Department of Education

rules and regulations, which requires an institution to notify the National Student Loan Data System (NSLDS) within 30 days if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half time basis. As a result, the NSLDS did not have accurate or current information.

Recommendation: UOP should develop and implement policies to ensure that when a student status change occurs, there is a process in place to ensure that all status changes are captured and reported to the NSLDS in a timely manner.

Prior Year Status: Management has determined the causes of the six instances of late reporting of student status changes and has implemented and/or is reviewing additional procedures to simplify and streamline processes for the timely reporting of student status changes. Also, management will initiate staff training and is reviewing automated processes for accurate setup on the McGeorge campus and tested for implementation on the Stockton campus.

PY Finding 06-2: Title IV Funds: Calculation and Return to Department of Education

Condition: During the review of 8 returns of Title IV withdrawals to the Department of Education (Department), the auditors found one instance when the funds were not returned within 30 days of the date of the Institution's determination that the student withdrew not in accordance regulations. There was one instance where the return of Title IV calculation was not completed accurately for a student. As a result, Title IV funds were not returned within the time specified by the Department. The auditors also found that this was caused by lack of a standardized process and management oversight.

Recommendation: UOP should develop and implement policies to ensure that when a student withdraws, there is a process in place for the timely return of Title IV funds to the Department programs.

Prior Year Status: In addition to the short term changes in process implemented based on the fiscal year 2005 audit findings, the institution continues to work toward implementation of the BANNER administrative software feature, which provides for automated procedures for recalculation and return of Title IV funds. Also, a proposal has been advanced and is under discussion that redesigns the withdrawal process and would move the withdrawal primary contact point to the Registrar's Office from the Office of Academic Support Services and the calculation of Title IV refund from the Bursar's Office to the Financial Aid Office.

PY Finding 06-3: Return of Some Title IV Funds

Condition: UOP has not considered any students who failed to earn a passing grade in at least one course offered during the semester for the return of Title IV funds calculation.

Recommendation: UOP should develop and implement a policy that unofficial withdrawals due to students failing to earn a passing grade are monitored and considered for return of Title IV funds calculations timely.

Prior Year Status: In addition to the process fully implemented based on the initial fiscal year 2005 audit findings, UOP executed a full review of all students who failed to earn a passing grade in at least one course offered, and appropriate return of Title IV funds has occurred. Process implementation coupled with summer absences, made timeliness an issue. With process and procedures having been completed, all determinations are expected to be on time for fiscal year 2007.

Management Letter Comments: None

Prior Year Management Letter Comments:

Although management is adequately addressing the issues raised in its fiscal year 2006 management letter, UOP has specifically requested that the contents of its Management Letter not be included in this report.

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WALDEN HOUSE, INC.

Walden House, Inc. (Walden House) is a tax-exempt corporation that has been providing behavioral health prevention and treatment services to the general public, primarily relating to drug and substance abuse rehabilitation and HIV prevention, since 1969. Walden House's vast network of services includes adult and adolescent residential treatment facilities, transitional homes, in-prison substance abuse programs, a regional substance abuse services coordinating agency, and administrative offices, which are located throughout California. Walden House administrative headquarters are located in San Francisco and Los Angeles, California.

Walden House receives funding from the public and private sectors, including grants and contributions from U.S. Governmental agencies, corporations, foundations, and individuals. In 2007, approximately 95% of Walden House's support was provided by grants from U.S. Governmental organizations.

Total Amount Received From the City in FY 2007-08: $14,323,660

Federal Funds Received From Public Health in FY 2007-08: $433,035

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments: None

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WESTSIDE COMMUNITY SERVICES, INC.

Westside Community Services, Inc. (Westside) is a private, nonprofit corporation formed in 1967. Westside's purpose is to foster, promote and provide mental health, drug abuse prevention and treatment, AIDS services and other social services for residents of San Francisco. Westside receives substantially all of its funding from the City and County of San Francisco with certain portions originating with the federal government.

Total Amount Received From the City in FY 2007-08: $13,490,438

Federal Funds Received From Public Health in FY 2007-08: $2,001,853

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments: None

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YOUNG MEN'S CHRISTIAN ASSOCIATION OF SAN FRANCISCO

Young Men's Christian Association (YMCA) of San Francisco is a not-for-profit organization founded in 1853, serving a diverse and socio-economically mixed population through its branches in San Francisco, Marin, San Mateo, and Solano counties. The YMCA's 15 branches reach people of all ages through programs and services, including youth counseling, child care, camping, health and fitness, family and senior activities, tutorial programs and community development. YMCA builds strong kids, strong families, and strong communities. YMCA relies on public support for a large portion of its annual budget. These funds are used for scholarships to individuals in need, program support, endowments and capital development.

Total Amount Received From the City in FY 2007-08: $7,158,934

Federal Funds Received From Public Health in FY 2007-08: $298,483

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings: None

Management Letter Comments: None

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YOUTH LEADERSHIP INSTITUTE

The Youth Leadership Institute (the Institute) is a statewide training and development center that provides a national model of youth partnerships with adults. The Institute delivers innovative programs that network, enhance and promote healthy lifestyle choices for young people. Sources of revenue and support for the Institute's services are primarily received from government contracts, foundation, and corporate grants. The Institute provides the following program services:

- Friday Night Live
- Prevention Youth Councils
- Tobacco Prevention Projects
- Training and Evaluation

Total Amount Received From the City in FY 2007-08: $505,462

Federal Funds Received From Public Health in FY 2007-08: $288,364

Single Audit Reviewed: Fiscal year ended June 30, 2007

Single Audit Findings:

Finding 07-01: Block Grants for Prevention and Treatment of Substance Abuse, CFDA#: 93.959

Condition: The Institute did not record the administrative employee's actual time worked on Federal programs using correct personnel activity reports or equivalent documents. Instead, the administrative payroll allocation was based on budgeted time allocations reported by managers.

Recommendation: The Institute should discontinue their current system of using budgeted time allocations reported by managers when allocating compensation costs to Federal programs. The Institute should adopt an acceptable procedure for the allocation of indirect costs.

Current Status: The Institute began tracking and reporting employees' actual time worked on contracts using timesheets effective with the 2007-08 fiscal year. Effective July 1, 2008, the Institute instructed employees and managers to use a single common timesheet and to ensure that all timesheets are signed by both the employee and supervisor. Additionally, the Institute asked their external auditor to examine the common timesheet and methods of time reporting to ensure compliance with governmental single audit standards.

Finding 07-02: Block Grants for Prevention and Treatment of Substance Abuse, CFDA#: 93.959

Condition: The Institute did not submit the auditors' report within the deadline required by OMB Circular No. A -133**.**

Recommendation: The Institute should complete their single audit and submit their audited financial statements within nine months after their year end or obtain an approved extension.

Current Status: The Institute anticipates that the fieldwork for the 2007-08 audit will begin in mid November 2008, and that the final audit will be completed prior to December 31, 2008. The Institute has advised their external auditor of the need to complete the audit prior to this date. In the course of completing the FY 2006-07 audit, the Institute obtained CFDA numbers for all contracts and will now collect and maintain this information when they initially approve the contract rather than at the time of the audit engagement.

Management Letter Comments: None

ATTACHMENT: DEPARTMENT RESPONSE

City and County of San Francisco

Department of Public Health

Gregg Sass
Chief Financial Officer

July 14, 2009

Robert Tarsia, Deputy Audit Director
Controller's Office
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Mr. Tarsia,

Attached is the response from the Department of Public Health on the draft report on *Monitoring of A-133 Single Audit Reports for Agencies Awarded Federal Funds by DPH in Fiscal Year 2007-08*. If you have any questions, please call Anne Okubo at 554-2857.

Sincerely,

Gregg Sass
Chief Financial Officer

Attachment

(415) 554-2610 101 Grove Street, Room 308 San Francisco, CA 94102

Recommendation	Responsible Agency	Response
1. Follow up with the organizations that have single audit or management letter findings and ensure that corrective actions have been implemented.	Department of Public Health	Concur. We will follow up within the next 30 days with organizations that have single audit or management letter findings on corrective actions taken to implement recommendations.
2. Follow up with the County of Marin AIDS Office and Horizon Unlimited of San Francisco Inc., to obtain the required missing documentation.	Department of Public Health	Concur. We will follow up within the next 30 days with these organizations and request that they submit the required missing information.
3. Periodically report results of the department's follow up work to the Public Health Commission to help assure the Commission that federal funds awarded through the department are properly accounted for.	Department of Public Health	Concur. This report as well as the results of the follow-up work will be submitted to the Public Health Commission.