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 the Department in Fiscal Year 2005-06

FINANCIAL AUDITS

April 18, 2007

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

April 18, 2007

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 (Controller) presents its report regarding the monitoring of nonprofit organizations that received federal funding through the Department of Public Health (department). The department, as the primary recipient of federal grants, is required to monitor those organizations, or subrecipients, to which it passes through federal funds. The Controller's City Services Auditor, Financial Audits, agreed to assume the department's monitoring requirement for federal grant subrecipients and to follow-up on any findings and questioned costs that resulted from subrecipient single audits conducted in accordance with OMB Circular A-133.

Of the 50 nonprofit organizations for which we reviewed single audit reports, 15 had single audit findings and 25 had management letter comments. Ten of these organizations had both single audit findings and management letter comments. One organization did not provide us with responses to its management letter comments.

The Controller's City Services Auditor, Financial Audits, will follow up on the status of the recommendations in the subrecipient single audit reports during the next year-end monitoring process.

Respectfully submitted,

Ed Harrington
Controller

cc: Gregg Sass, Chief Financial Officer

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INTRODUCTION

BACKGROUND

Under the requirements of the Single Audit Act and OMB Circular A-133, a primary recipient of federal awards must monitor its subrecipients to determine whether the subrecipients have expended the awards in accordance with applicable laws and regulations. Subrecipients receiving federal awards of $500,000 or more must issue single audit reports performed in accordance with OMB Circular A-133. As the primary recipient, the Department of Public Health (department) is required to ensure that these audits are performed, and must follow-up on the resolution of all reported findings and questioned costs.

At the request of the department, the Office of the Controller's City Services Auditor, Financial Audits, (Controller) assumed the monitoring and follow-up function for federal funds awarded by the department in fiscal year 2005-06. This report summarizes the results of the Controller's monitoring of those subrecipients who were required to obtain single audit reports.

SCOPE AND METHODOLOGY

The department provided us with a list of all nonprofit organizations to which the department had passed through federal funds in fiscal year 2005-06. We obtained and reviewed single audit reports for those nonprofit organizations, which received over $500,000 in federal funds and are thus required to file single audit reports with the federal government. For those single audit reports that contained findings, we ensured that the nonprofit organization had a corrective action or response to the findings. In addition, where applicable, we also obtained and reported management letter comments, recommendations, and the current status of the management letter comments.

While the department also has certain responsibilities pertaining to the monitoring of subrecipients receiving less than $500,000, and the Controller will issue a separate report addressing these responsibilities, the scope of this report was limited to our follow-up of subrecipients with single audit requirements (i.e., those receiving $500,000 or more in federal funding). For the most part, our review covered single audits that were performed for the fiscal year ended June 30, 2005; however, we also reviewed single audits from organizations using the calendar year end of December 31, 2004 or 2005.

MONITORING RESULTS

We reviewed single audit reports from a total of 50 nonprofit organizations, and found that 15 single audit reports contained findings and recommendations. All recommendations either have been or are currently being addressed by the organizations. Of the 50 nonprofit organizations, 25 of them had management letter comments. Ten of the organizations had both single audit findings and management letter comments. Haight Ashbury Free Clinics, Inc. did not provide us with responses to their management letter comments.

Community Awareness and Treatment Services' (CATS) independent auditor's report for June 30, 2005 included a statement regarding uncertainty about CATS' ability to continue as a going concern. The board of directors and management have developed a plan to reduce CATS' liabilities and increase its cash flow through reduction in expenses, aggressive fundraising and additional contracts. The ability of CATS to continue as a going concern is dependent on the plan's success. We will follow up with this and all nonprofit organizations with single audit reports during the next monitoring review.

RECOMMENDATIONS

The Department of Public Health should take the following actions to ensure that it properly monitors the use of federal funds it awards each year to agencies:

- Follow up with the organizations identified as having single audit or management letter findings and ensure that the organizations have taken corrective action to implement the recommendations made by their independent auditors.

- Follow up with Haight Ashbury Free Clinics, Inc., which did not provide a response or action plan to us and ensure that the organization has addressed its management letter findings.

- Periodically report to the Public Health Commission the results of the department's follow up work to assure the Commission that it is properly accounting for the use of federal funds awarded through the department.

Summary Table of Nonprofit Organizations Reviewed

Organization	Total City Funds Awarded	Federal Funds Awarded *via* DPH	Single Audit Findings		Management Letter Comments	
			Yes	No	Yes	No
AIDS Emergency Fund	$ 385,252	$ 385,252		X	X	
Ark of Refuge, Inc.	1,019,599	287,720		X		X
Asian & Pacific Islander Wellness Center	530,407	365,921		X		X
Asian American Recovery Services	7,194,099	1,591,286		X		X
Baker Places, Inc.	14,934,968	233,658	X		X	
Bayview Hunters Point Foundation	5,825,923	1,193,501		X		X
Black Coalition on AIDS	906,182	473,733		X		X
California AIDS Intervention Training Center	118,366	94,033	X			X
California Family Health Council, Inc.	11,611	10,225	X			X
Catholic Charities CYO	5,641,052	387,253		X	X	
Catholic Healthcare West	1,233,982	580,056	X		X	
Center for Human Development	146,478	139,581		X	X	
Community Awareness and Treatment Services	5,324,194	965,166		X	X	
Compasspoint Nonprofit Services	84,533	1,130		X		X
Continuum HIV Day Services	460,977	460,977		X	X	
County of Marin	1,019,731	958,299		X		X
County of San Mateo	2,139,331	2,128,003	X		X	
Dolores Street Community Services	956,289	412,457	X		X	
Episcopal Community Services of San Francisco	9,992,236	101,127		X		X
Family Service Agency of San Francisco	6,039,881	125,726		X	X	
Friendship House Association of American Indians, Inc.	568,491	210,053	X		X	
Haight Ashbury Free Clinic, Inc.	8,261,716	3,000,417	X		X	
Horizons Unlimited	1,738,825	842,500		X	X	
Instituto Familiar de la Raza, Inc.	3,531,575	533,130		X		X
Iris Center	1,213,175	481,250		X		X
Japanese Community Youth Council	5,930,460	790,000		X	X	
Larkin Street Youth Center	3,564,913	308,192		X		X
Latino Commission	1,034,411	592,500		X		X
Lutheran Social Services of Northern California	998,749	913,670		X	X	
Maitri	1,161,871	1,161,871	X		X	
Mission Council on Alcohol Abuse for the Spanish Speaking	864,618	136,588		X	X	
Mission Neighborhood Health Center	2,325,203	1,658,926		X		X
New Leaf Services for Our Community	1,858,292	664,026		X		X
PHFE Management Solutions	1,276,843	776,797		X		X
Positive Resource Center	1,072,183	659,674		X	X	

SUMMARY TABLE, CONTINUED

Organization	Total City Funds Awarded	Federal Funds Awarded *via* DPH	Single Audit Findings		Management Letter Comments	
			Yes	No	Yes	No
Project Open Hand	2,702,912	1,545,806		X		X
Richmond Area Multi-Services, Inc.	5,896,872	11,076		X	X	
San Francisco Community Clinic Consortium	218,979	218,835	X			X
San Francisco Food Bank	627,272	219,935	X			X
San Francisco Suicide Prevention, Inc.	509,173	241,252		X	X	
Shanti	1,667,599	1,667,599	X			X
South of Market Health Center	17,548	17,548		X		X
Swords to Plowshares	985,254	116,317	X		X	
Tenderloin AIDS Resource Center	2,363,143	1,825,982		X	X	
The San Francisco AIDS Foundation	5,492,037	2,381,668		X		X
The San Francisco Particular (St. Vincent de Paul Society)	1,906,354	80,000		X	X	
University of California, San Francisco	13,445,822	8,396,092	X		X	
University of the Pacific – School of Dentistry	464,717	464,717	X		X	
Waldenhouse, Inc.	8,601,714	5,661,480		X		X
Westside Community Health Center	10,556,040	2,437,448		X		X

AIDS EMERGENCY FUND

The AIDS Emergency Fund (AIDS Fund) provides emergency financial assistance to persons with AIDS or disabling HIV or with 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. The AIDS Fund received approximately 50 percent 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 2005-06: $385,252

Federal Funds Received From Public Health in FY 2005-06: $385,252

Single Audit Findings: None

Management Letter Comments:

Comment 1: Client Grants

Condition: The total number of grants to clients in the fiscal year exceeds those that are funded by the CARE contract. However, in testing individual client grants, the auditor found that one client who was subsequently determined to be ineligible for a grant and one whose grant was less than $500 were included in units of service billed to the contract.

Recommendation: Although these units of service could be replaced by other grants, the AIDS Fund should institute additional reconciliation procedures to avoid the appearance of a problem.

Current Status: In subsequent discussions with the auditor, it was explained to the AIDS Fund that CARE monies only comprise roughly half of the total number of client grants they issue annually. In the course of submitting billings to SFDPH, the AIDS Fund keeps track of CARE eligible grants per month, but do not submit specific client detail. In the event that a particular client is subsequently found ineligible, or a client does not utilize his or her entire grant, there are over 1,000 other client grants annually that are eligible for billing to take that place.

Comment 2: Client Intake and Payment

Condition: In a review of client files, the auditor found occasional files that were missing a second signature.

Recommendation: All client grant applications and approvals should be consistently approved by a second person.

Current Status: The client services manager and controller are the two routine reviewers of client files for grants and payments. If either is absent, the executive director has been trained to review and sign files; however he is inconsistently available for this task. The BCEF program manager has been cross-trained on these procedures.

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ARK OF REFUGE, INC.

The Ark of Refuge, Inc. (the Ark) is a nonprofit organization, which provides opportunities in areas of social and cultural needs; develops centers for the presentation of educational activities; provides community training to persons in subject areas; and to certify persons completing community training via these centers. In addition to its headquarters, the Ark operates four additional facilities in the San Francisco-Oakland Bay Area.

Total Amount Received From the City in FY 2005-06: $1,019,599

Federal Funds Received From Public Health in FY 2005-06: $287,720

Single Audit Findings: None.

Management Letter Comments: None.

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ASIAN & PACIFIC ISLANDER WELLNESS CENTER

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. The Wellness Center realigned their services in the current fiscal year and the current programs are as follows: HIV Care Services, Health Education, Research and Technical Assistance, and Social Marketing.

Total Amount Received From the City in FY 2005-06: $530,407

Federal Funds Received From Public Health in FY 2005-06: $365,921

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 2005-06: $7,194,099

Federal Funds Received From Public Health in FY 2005-06: $1,591,286

Single Audit Findings: None

Management Letter Comments: None

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BAKER PLACES, INC.

Baker Places, Inc. (Baker Places) is a non-profit corporation providing an array of community-based services to the residents of San Francisco with mental health, substance abuse, and/or HIV/AIDS related issues. Baker Places is dedicated to assisting individuals in learning and regaining the skills to live their lives fully and productively in the community. This social rehabilitation approach guides and unifies all Baker Places' programs. Services are aimed at being accessible, flexible, consumer driven and culturally competent. Baker Places was founded in 1964, seeded with funds from Glide Memorial Methodist Church, with the goal of providing residential treatment services for adults recently released from Napa State Hospital. The first site is located at 730 Baker Street, and explains the origin of the agency's name. In 1969 Baker Places incorporated as a private, non-profit, tax exempt California Corporation and began expanding services through contracts with the San Francisco Department of Public Health. Baker Places is also the recipient of other major Federal grants. Growth in grant revenue is substantially dependent on government budgetary restraints.

Total Amount Received From the City in FY 2005-06: $14,934,968

Federal Funds Received From Public Health in FY 2005-06: $233,658

Current Single Audit Findings: None

Prior Single Audit Findings:

Finding 04-2: Subsidiary Ledgers

Condition: Subsidiary ledgers for accounts receivable and accounts payable were not accurately maintained. This resulted in inaccurate balances within the general ledger, improper monitoring of cash receipts from outstanding receivables and improper monitoring of payments to vendors providing goods and services.

Recommendation: Appropriate management should properly maintain and review all subsidiary ledgers to ensure accuracy.

Current Status: Subsidiary ledgers are being maintained, monitored and reconciled to the general ledger in a timely and accurate manner. All entries are reviewed by the accounting manager and there is a high degree of accuracy in management understanding regarding the status of revenues and disbursements, as well as cash flows. The accounting software package is undergoing evaluation to inform a decision whether to update or to invest in a different software package. A project consultant with accounting expertise has been retained to perform this evaluation and to make a recommendation to the Board of Directors, which can be implemented early in the second quarter of the current fiscal year.

BAKER PLACES INC.
(continued)

Finding 04-3: Cash Account Reconciliation

Condition: Individual cash accounts are not reconciled to the general ledger on a timely basis. As a result, management is unable to support the cash balance recorded in the general ledger, or to monitor outstanding transactions.

Recommendation: Baker Places should reconcile all cash accounts to the general ledger monthly. In addition, appropriate personnel should review the reconciliation to ensure accuracy and preparation on a timely basis.

Current Status: In the current year cash and investment accounts continue to be accurately reconciled to the general ledger on a monthly basis. The reconciliation is supervised and reviewed regularly within the accounting department and is reported to and reviewed by senior management on a timely basis to make fiscal management adjustments, decisions and forecasts.

Current Year Management Letter Comments:

Comment 1: Review of Bank Account Reconciliations

Condition: The bank reconciliations are reviewed by an appropriate person; however there is no consistent dating or initialing of the bank reconciliation to document the review process.

Recommendation: The appropriate person should consistently document the review of bank reconciliations by initializing the reconciliations.

Current Status: Although the Finance Director or Account Manager does review the bank reconciliation, they have not consistently initiated the reconciliation as evidence that a review had taken place. Management is making improvements in documenting that each reconciliation has been reviewed.

Comment 2: Canceling If Paid Vendor Invoices

Condition: Vendor invoices are not cancelled when paid. A remittance stub is attached to the vendor invoice to indicate it was paid. However, a previously paid invoice could be resubmitted for payment and because it is already approved and coded the vendor invoice could be paid repeatedly.

Recommendation: Vendor invoices should be cancelled when paid.

Current Status: Management uses remittances stubs as proof of payment and feels the accounting software will not allow for duplicate payment. In addition, the accounting department stamps vendor invoices with a coding/approval stamp. However, management will take the idea of a stamp to cancel invoices under consideration.

BAKER PLACES INC.
(continued)

Prior Management Letter Comments:

<u>PY Comment 1: Authorized Pay Rates</u>

Condition: Baker Places was unable to locate up-to-date, current approved employee pay rate forms in 5 out of 40 instances. Pay rate approval is crucial to the operation of an internal payroll function.

Recommendation: Management should regularly review personnel files to improve the effectiveness of its internal control over payroll, and to ensure that they have adequate and up-to-date payroll information.

Current Status: During the current test of controls over the payroll transaction cycle, Baker Places was unable to locate a current payroll action form for 1 out of 40 transactions. Because Baker Places implemented accounting procedures changes late in the fiscal year due to a delay in issuing prior year's audit recommendations, the auditor anticipated improvement in the payroll in the payroll transaction cycle to take effect late in the fiscal year. The exception noted in the payroll transaction testing is consistent with the auditor's expectation. Subsequent to the hiring of a payroll manager, information, documentation and recordkeeping continue to improve and personnel files are complete. Management reviews each payroll and conducts random of the system.

<u>PY Comment 4: Disbursement Procedures and Accounting Procedures</u>

Condition: During the testing of cash disbursements, the CPAs noted several invoices, most of which were internal lists of client refunds relating to their overpayment of monthly rents, which had no authorization or approval and general ledger coding.

Recommendation: To improve effectiveness of control, management should develop an accounting policies and procedures manual that dictates a signed approval and general ledger coding is required documentation for disbursements.

Current Status: During the current test of controls over the cash disbursement cycle, the auditor noted that 2 out of 40 transactions did not have coding or approval. Because Baker Places implemented accounting procedures changes late in the fiscal year due to a delay in issuing prior year's audit recommendations, the auditor anticipated improvement in the cash disbursement processes to take effect late in the fiscal year. The exception noted in the cash disbursement testing is consistent with the auditor's expectation. Management has nearly completed the Accounting Policies and Procedures Manual update and expects that process to be completed prior to December 31, 2005. Disbursements are scrutinized closely for approval and general ledger coding by the accounting manager and secondarily by the first check signer, who is always a senior manager.

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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. It employs approximately 87 people and administers numerous programs, which include substance abuse programs, mental health services, legal services/violence prevention, and youth services.

Total Amount Received From the City in FY 2005-06: $5,825,923

Federal Funds Received From Public Health in FY 2005-06: $1,193,501

Single Audit Findings: None.

Management Letter Comments: None

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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 2005-06: $906,182

Federal Funds Received From Public Health in FY 2005-06: $473,733

Single Audit Findings: None

Management Letter Comments: None

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CALIFORNIA AIDS INTERVENTION TRAINING CENTER
(also known as Institute for Community Health Outreach)

California AIDS Intervention Training Center (Training Center) is a nonprofit corporation organized in 1994 and located in San Francisco. The Training Center provides AIDS and health intervention training sessions to community outreach workers throughout Northern California. The Training Center provided direct services to approximately 500 clients and outreach services to over 3,000 people. The Training Center trained approximately 275 people in 2005.

Total Amount Received From the City in FY 2005-06: $118,366

Federal Funds Received From Public Health in FY 2005-06: $94,033

Current Single Audit Findings:

Finding 05-1: Credit Card Charges

Condition: Not all employees' credit card charges were supported by adequate documentation. This was also a prior single audit finding. Reimbursement costs must be adequately documented to be allowable under an award.

Recommendation: Management should retain and attach approved receipts for all company credit card charges.

Current Status: Management is now keeping adequate receipts and documentation for credit card charges.

Finding 05-2: Budget Revision for Indirect Costs

Condition: Management did not submit a budget revision for indirect costs. Changes to the budget that do not increase or reduce the maximum dollar obligation are subjected for approval.

Recommendation: Greater care should be taken in updating the budget justification in the contract.

Current Status: Management will visit all the contract budget justification and submit the updated information for contract renewal.

Finding 05-3: Written Cost Allocation Plan

Condition: Management did not have a formal cost allocation plan addressing the allocation of indirect cost and directly allocable cost to its contracts. A written cost allocation plan is required in accordance with OMB Circular A-122.

Recommendation: Management should formalize a written cost allocation plan in accordance with OMB Circular A-122 and include the plan in its accounting manual.

CALIFORNIA AIDS INTERVENTION TRAINING CENTER
(continued)

Current Status: Management will develop an allocation plan for indirect costs and direct costs and include it in the accounting manual.

Management Letter Comments: None

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. CFHC's mission is to assure access to comprehensive voluntary healthcare services, including family planning, to all California residents, and, among other things, to act as a fiscal intermediary between providers and funding sources, ensuring appropriate distribution of funds. CFHC receives federal family planning funds, which it allocates to numerous delegate agencies that provide direct services to primarily low-income clients.

Total Amount Received From the City in FY 2005-06: $11,611

Federal Funds Received From Public Health in FY 2005-06: $10,225

Current Single Audit Findings:

Finding 05-1: Subrecipient Monitoring

Condition: During the test of CFHC's compliance with the federal requirements on subrecipient monitoring, four out of six agencies tested whose federal expenditures exceeded $500,000 did not provide CFHC with their single audit reports for the fiscal year ended June 30, 2005.

Recommendation: CFHC should ensure that subrecipients expending $500,000 or more in federal awards comply with the single audit requirements. CFHC should also ensure that appropriate actions are taken by the subrecipient's management to address audit findings, if any.

Current Status*:* Management concurs with the auditors' recommendation. Management will increase the review procedures for A-133 desk audits of subrecipients expending $500,000 or more in federal awards. In addition, during our site reviews of subrecipients we will review the status of any open A-133 audit findings as reported in the subrecipients' most recent A-133 audit.

Finding 05-2: Delegate Agency Files

Condition: During the review of selected delegate agency files, the auditors noted that there is no evidence that CFHC communicated the Catalog of Federal Domestic Assistance (CFDA) number of the grant to its delegate agency.

Recommendation: CFHC should develop and implement a process that will facilitate proper identification of all federal information, including the CFDA number to its subrecipients at the time of the award. CFHC may consider including the federal award information in the delegate agency contracts.

Current Status: Management concurs with the auditors' recommendation. Management will include the CFDA number of the grant in all delegate agency award allocation letters and in the delegate agency contracts.

Prior Single Audit Findings:

Finding 04-1: Eligibility of Agencies

Condition: Although CFHC has in place the procedures necessary to determine that delegate agencies for the Family Planning Services and Sexually Transmitted Disease Control programs are not suspended or debarred, no similar procedures are in place for any other contracts.

Recommendation: Management should ensure that policies and procedures are in place to facilitate compliance with the federal requirements relating to suspension and debarment. These should include not only delegate agencies but also transactions with other parties under covered transactions. CFHC can verify its compliance with this federal requirement by doing one of the following:

a) Checking the *Excluded Parties List System* maintained by the General Services Administration;
b) Collecting a certification from the entity; or
c) Adding a clause or condition to the covered transaction with that entity.

Current Status: CFHC adopted a Suspension and Debarment Policy to ensure compliance with federal requirements. The policy aims to ensure that no contractual relations and/or sub-awards exceeding $25,000 are executed with suspended or debarred entities or those whose principal have been suspended or debarred.

Finding 04-2: Contractor's Release Form

Condition: CFHC did not submit the Contractor's Release Form, as required, with the final invoice to the California DHS. Also, there were delays in CFHC's submission of monthly invoices to the County of Los Angeles DHS.

Recommendation: CFHC should ensure that all required reports are complete and submitted on a timely basis.

Current Status: No similar findings were noted for the year ended December 31, 2005.

Management Letter Comments: None

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

Catholic Charities CYO of the Archdiocese of San Francisco (Catholic Charities) is a nonprofit human services and community development organization. Catholic Charities is dedicated to the growth and development of children and families in a safe environment. Its mission is to alleviate human suffering by providing direct services for the poor and disenfranchised; to address the root causes of poverty and injustice by assisting people to mobilize their own resources and become self-sufficient, to enhance society's awareness of suffering through advocacy for changing unjust social conditions. Guided by core values of charity, social justice and respect for human dignity, Catholic Charities reaches out to children, families, and individuals in San Francisco, San Mateo, and Marin counties, and offers over 40 programs located throughout the Archdiocese. An important dimension of the programs is concerted outreach to "at risk" youth, families and communities. Catholic Charities views their employees and those they serve as strategic partners in these efforts.

Total Amount Received From the City in FY 2005-06: $5,641,052

Federal Funds Received From Public Health in FY 2005-06: $387,253

Single Audit Findings: None

Current Management Letter Comments:

Comment 1: Timeliness of Account Reconciliations

Condition: During the testing of controls, the auditor noted that certain investment and bank account reconciliations were not performed on a timely basis. If reconciliations are not performed on a timely basis, there is a risk that errors may be made in the reconciliation, which may not be caught on a timely basis.

Recommendation: Account reconciliations should be performed on a monthly basis and reviewed on a quarterly basis. The sign-off by the preparer and reviewer should include the respective dates of preparation and review.

Current Status: Management agrees with the above recommendation.

Comment 2: Control over Development Department

Condition: Until fiscal year 2005, the accounting department was unaware that Catholic Charities had been named as a beneficiary of a charitable lead trust that had been set up in 1999. The development department had not communicated the existence of this trust to the accounting department and consequently the trust had not been correctly accounted for in the financial statements.

Recommendation: Adequate training should be provided to personnel in the development department on the different types of charitable giving options available to donors so that they are able to identify these arrangements when whey arise and are able to communicate them to the accounting department on a timely basis. Further, management should implement procedures to ensure that the accounting department receives copies of all trust/unusual agreements.

Current Status: Development staff must be trained on how to handle bequest and other major/planned giving vehicle communications. Finance must be notified on a timely basis in order to issue proper accounting treatment. The failure to issue proper accounting treatment led to a note in the financials.

Comment 3: Lack of Approval for New Bank Accounts

Condition: A new bank account was opened in fiscal year 2005 by a program to hold collections for a recently deceased community member. The accounting department was not notified of this new account until after the account was opened. If the appropriate approval process of the opening account is not followed, bank accounts may exist which the accounting department is not aware of.

Recommendation: The Board should approve all new bank accounts and departments should be notified of the appropriate approval process for opening bank accounts.

Current Status: A senior manager at St. Vincent's opened a bank account and placed funds in the account without Finance Committee approval. Finance and development staff were not notified about the existence of the account. The Bank notified finance management. Management addressed this as a serious personnel issue.

Comment 4: Updating Valuation of In-Kind Donations

Condition: Catholic Charities records an in-kind contribution for the difference between the lease payments it makes for the use of certain facilities and their fair rental value. However, the contribution recorded by Catholic Charities had not been updated since the inception of this arrangement and therefore there is a risk that the contribution recorded does not reflect current fair rental value for the facilities.

Recommendation: Catholic Charities should evaluate the amount being recorded for the in-kind contribution on an annual basis to ensure that the amount reflects current market value.

Current Status: Management agrees with the above recommendation.

Comment 5: Improving Controls Over Bidding Process for Construction Projects

Condition: Catholic Charities incurred expenses of approximately $500,000 for certain construction projects. Over the next two years, Catholic Charities is expected to increase expenditures in this area to approximately $5M. We noted that there are no formal procedures in place over the bidding process and the selection of contractors and as the expenditures increase there is a risk that without formal procedures in these areas, Catholic Charities may not be obtaining the most competitive prices for the work performed.

Recommendation Catholic Charities should formalize procedures over the bidding and selection processes for contractors and ensure that adequate levels of approval are obtained prior to contractors being awarded construction projects.

Current Status: Management (Facilities) will design and maintain proposals and competitive bids to show that we are receiving the best price on projects.

Prior Management Letter Comment:

Comment 6: Lack of Review Over Auxiliary Account Balances

Condition: In fiscal year 2002, Catholic Charities received approximately $293,000 as a bequest received from the Mary S. Kelly Estate. The funds were remitted directly to the Auxiliary Women of San Mateo (the trustee) and were invested in certificates of deposit. While management maintains that Catholic Charities is entitled to these funds, currently the funds are held in the name of the trustee. As such, it is difficult for Catholic Charities to properly use the funds for their intended purpose.

Recommendation: Catholic Charities should attempt to resolve the access issue related to these funds.

Current Status: In the interest of donor relations, management has decided not to take further action on this matter at the present time.

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CATHOLIC HEALTHCARE WEST DBA ST. MARY'S HOSPITAL

Catholic Healthcare West (CHW) is a California not-for-profit corporation exempt from federal and state income taxes. CHW is co-sponsored by seven congregations that have specific governance rights and responsibilities, including the appointment of CHW's ten corporate members. CHW owns and operates hospitals in California, Arizona, and Nevada. CHW provides a variety of healthcare, education and other benefits to the communities in which it operates. Healthcare services include inpatient, outpatient, sub-acute and home health care services, as well as physician services through CHW Medical Foundation and affiliated medical groups.

Total Amount Received From the City in FY 2005-06: $1,233,982

Federal Funds Received From Public Health in FY 2005-06: $580,056

Single Audit Finding:

Finding 05-01: Reporting of Federal Awards

Condition: Federal awards for various programs (Carotid Occlusion Surgery Study, Accord Cardiac Research, California Hospital Bioterrorism Preparedness Program and Memorial-Miners Hospital) were not reported to the respective facility managers, and as such, were not included in the Schedule of Expenditures of Federal Awards included in CHW and Subordinate Corporations' Consolidated Financial Statement as of and for the years ended June 30, 2004, 2003, and 2002 and Independent Auditor's Report and OMB Circular A –133 Audit Reports for the year ended June 30,2004.

Recommendation: CHW should review its controls and procedures around the recording of Federal awards at each facility and consider implementing or updating its controls and procedures around the recording of Federal awards to ensure that all Federal awards are properly recorded and reported by the Corporation Office in the Schedule if Expenditures of Federal Awards.

Current Status: In an effort to make sure that all Federal grants are reported in a timely manner on the A-133 schedule, the following actions were taken: CHW trained all hospital chief financial officers on the A-133 audit requirements and reminders from accounting staff to the hospital department managers occur each quarter requesting advance notification on recent grant applications or awards to ensure proper reporting at year end.

Current Management Letter Comments:

Comment 1: Segregation of Duties and System Access

Condition: The auditor has noted formation security risks, particularly with regard to user access controls and an inadequate segregation of duties within CHW's business process and application systems. Continuing control concerns include inadequate segregation of duties, terminated and transferred users continuing to have access to applications, advanced user access not appropriately restricted, and user access in excess of what was required to perform assigned job responsibilities. This was also a prior audit finding.

Recommendation: To improve controls, CHW should continue its efforts to establish a standard minimum level of information security control across the enterprise. CHW senior management, including representatives from both the finance and IT departments should continue to work together to balance business and information security needs, giving consideration to capital funding and operational constraints which may impact management's timeline and response to security concerns. CHW management should ensure new application systems planned for enterprise rollout, including Lawson, are designed and implemented in a manner that supports effective access security and segregation of duties and is consistent with CHW's desired security profile.

Current Status: Management has initiated and implemented various new processes, projects, and initiatives to address audit concerns including the security risk assessment and related remediation plans, and the roll out of the web-based user provisioning tool (CARS). Due to the size, diversity and complexity of CHW systems, management expects that it will take a period of several years to complete the currently planned projects and initiatives in order to achieve CHW's defined security objectives and fully address the identified information security audit concerns.

Comment 2: Controls Over the Monitoring and Valuation of Accounts Receivable

Condition: The valuation of net patient accounts receivable is a subjective process, which requires management judgment within the context of the policy. The accounts receivable system utilized throughout CHW and the data utilized by the facilities in the calculation of accounts receivable are varied and result in variation in the techniques utilized in the application of the policy. Also, the accounting for discrepancy unit receivables is not consistent across the system.

Recommendation: Management should continue to utilize the new tool implemented in April 2005 to review and monitor the valuation of net patient accounts receivable and facility management's adherence to policy. Management should also consider implementing certain additional procedures to review the reserves on a quarterly or monthly basis such as performing an independent estimate of the valuation of net patient accounts receivable based upon the most recent collection history.

It is imperative that local markets continue to carefully monitor changing payment trends and other market dynamics and continually adapt their valuation techniques and data utilized in estimating allowances to most accurately estimate reserve. System level financial management should continue to evaluate the variations in calculation techniques and data utilized across the system and should consider the need for additional guidance, further standardization among the facilities, or updates to established policies. Finally, management should establish standard policies for accounting for discrepancy unit receivables.

Current Status: Management continues to utilize the new tool implemented in April 2005 to review and monitor the valuation of net patient accounts receivable and facility management's adherence to policy.

Comment 3: Accounts Receivable Bad Debt Reserve Policy

Condition: During the fiscal year ended June 30, 2003, CHW implemented a new policy established a standardized model for estimating bad debt reserves, Guidelines for Establishing Bad Debt Reserves.

Recommendation: Management should revisit the current model utilized for estimating bad debt reserves to ensure it remains appropriate and continues to provide an appropriate means for calculating bad debt reserves. Additionally, the reserve factors outlined in the current policy should be reevaluated periodically to ensure they continue to accurately reflect the estimated uncollectible accounts included in portfolio when considering the current collection history, changes in contract rates and charge masters, as well as changes in the payer mix.

Current Status: Management reviews the bad debt reserve policy on an annual basis and the policy is updated to ensure that the model is calculating appropriate bad debt reserves. The policy was reviewed and updates were implemented across all CHW hospitals in January 2006.

Comment 4: Tracking and Accounting for Fixed Assets

Condition: Variability existed among facilities in the controls in place surrounding accounting for fixed assets. In particular, not all facilities have requirements to tag and track fixed assets. Also, several facilities have not performed physical inventories of fixed assets recently. This was also a prior audit finding.

Recommendation: Established the new policy and procedure is the first step to ensure the accuracy and safeguard of fixed assets. With the rollout of the new Lawson information system, management should make certain that the new policies and procedures are adhered to and authenticate the accuracy of the information entered into the fixed asset listing to avoid bad or outdated information entering into the new system. In addition, quality physical inventory counts should be conducted, as well as reconciling physical counts to the general ledger, tagging of assets, and tracking of asset movements.

Current Status: During April 2003, management reevaluated the existing policy regarding physical inventories of fixed assets. The policy, as modified, requires each facility to conduct full physical inventory counts within one year prior to the implementation of the new Lawson information system and every three years thereafter. This policy applies to fixed assets purchased with non-federal funds. Hospitals receiving federal funding are currently conducting physical inventories every two years. Improvement in this area depends on the timing of the Lawson implementation, as other intermediate steps to improve fixed asset controls are not considered to be cost effective. All CHW hospitals should be live on the new system by January 1, 2007.

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CENTER FOR HUMAN DEVELOPMENT

Center for Human Development (CHD) is a California nonprofit corporation founded in 1972 dedicated to promoting the health and harmony in individuals, families and communities. CHD operates five facilities in the greater San Francisco Bay Area and is committed to substance abuse prevention, youth development, HIV education and prevention, conflict resolution and parent education. Center for Human Development trains both adults and youth to become better leaders, role models and positive decision-makers. A Board of Directors and its operating committees govern CHD. CHD provides the following programs:

- Parent Educator Program
- Friday Night Live and Club Live
- Youth Striving for Excellence
- NEAT Family
- Empowerment
- North Richmond Community Services
- Conflict Resolution Panels
- Training Center
- Bay Point Partnership

Total Amount Received From the City in FY 2005-06: $146,478

Federal Funds Received From Public Health in FY 2005-06: $139,581

Single Audit Findings: None

Management Letter Comment:

Comment 1: Audit Committee

Condition: CHD does not have an audit committee.

Recommendation: The auditors recommended creating an audit committee.

Current Status: At the time of the November 2005 board meeting when the audit was presented, CHD was in the midst of a capacity-building initiative. As a result of that initiative, the board is focusing on board development and fund development before creating the audit committee. As such, the recommendation has not yet been implemented.

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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
- Drinking Driver Program
- A Woman's Place
- Golden Gate for Seniors
- Redwood Center
- McMillan Drop-in Center
- Eddy Street Project
- A Man's Place
- South Beach Center

Note: CATS' financial statements were prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of CATS as a going concern. However, as indicated in the financial statements CATS showed a decrease in net assets of $415,030 during the year ended June 30, 2005. As of that date, CATS' current liabilities exceeded its current assets by $633,834. Those factors create an uncertainty about CATS' ability to continue as a going concern. The board of directors and management have developed a plan to reduce CATS' liabilities and increase its cash flow through reduction in expenses, aggressive fundraising and additional contracts. The ability of CATS to continue as a going concern is dependent on the plan's success. The financial statements do not include any adjustments that might be necessary if CATS is unable to continue as a going concern.

Total Amount Received From the City in FY 2005-06: $5,324,194

Federal Funds Received From Public Health in FY 2005-06: $965,166

Single Audit Findings: None

Current Management Letter Comment:

Comment 1: Data Back-Up

Condition: During 2005, there was a significant accounting data loss due to a system crash. CATS was not able to retrieve the lost data because the back-up system was not properly maintained. Consequently, a significant amount of data had to be reentered.

Recommendation: Procedures should be implemented to ensure data is properly backed up.

Current Status*:* Procedures are in place to insure that the accounting database is backed-up on Tuesday and Thursday. The computer technician delivers back-up database disks to the director of finance who places the disks in the locked safe deposit box that is located in the director of finance's office. Procedures are being addressed to get at least one of the day's back-up disk offsite.

Comment 2: Accounts Payable

Condition: A significant difference exists between the subsidiary ledger and general ledger accounts payable balance. Consequently, the auditors as well as CATS staff, had to spend a significant amount of time during the audit to test/reconcile the subsidiary ledger to the general ledger.

Recommendation: The accounts payable subsidiary ledger should be reconciled to the general ledger as part of the monthly accounting close.

Current Status: Procedures are in place to insure that all invoices are entered into the accounts payable database weekly. An Aged Accounts Payable Report is generated weekly, which is reviewed and reconciled monthly to the invoices by the director of finance. The Aged Accounts Payable Report is then filed in the accounts payable binder for future reference and review. There is no need to prepare a "Subsidiary Accounts Payable Ledger" since this report serves the purpose of the subsidiary ledger.

Comment 3: Fixed Assets

Condition: The fixed asset subsidiary ledger was not properly maintained during the year. The ledger included items below CATS' capitalization policy as well as other computation errors. Consequently, the auditors as well as CATS staff, had to spend a significant amount of time during the audit to test and reconstruct the subsidiary ledger. This was also a prior audit finding.

Recommendation: The fixed assets subsidiary ledger should be updated and reconciled to the general ledger as part of the monthly accounting close.

Current Status*:* It is the policies and practices of CATS to capitalize all cost of $5,000 for assets purchased and placed in service and have a useful life of more than one year. The director of finance will review and update procedures to insure that a detail subsidiary ledger is maintained and that the ledger is periodically reconciled to the general ledger.

Comment 4: Old Outstanding Checks

Condition: The auditors discovered sixty outstanding checks amounting to $52,237 that were more than a year old. These checks were reclassed to accounts payable since they probably are no longer negotiable.

Recommendation: These checks should be researched and reissued or written off as appropriate.

Current Status*:* These checks were voided and appropriate liabilities were recorded by the auditor for the FYE 2005 audit. The director of finance will review monthly bank reconciliations to insure that all outstanding checks are appropriately addressed.

Comment 5: Program Income – Eddy Street Project

Condition: The auditors noted that rent income from the tenants was recorded on a cash basis.

Recommendation: Rent income should be recorded on an accrual basis in accordance with generally accepted accounting principles. The receivable should be reviewed periodically and a reserve established for any amounts deemed to be uncollectible.

Current Status*:* Procedures are in place to insure that a "RENT ROLL" ledger is prepared on a monthly basis and that rental income; rental income receivable and any allowance for uncollected rents are accurately recorded.

Comment 6: 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. No operating or replacement reserve deposits were made during fiscal year 2005. However, CATS has obtained a one-year waiver from the City and has submitted a plan on resuming funding the reserves.

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

Current Status*:* CATS received a waiver for 2005 and 2006 for the Eddy Street Apartments Operating and Reserve Accounts from the Mayor's Office of Housing. The plan of action is that CATS start replenishing the accounts in August 2006, by contributing $1,000/month into each account.

The San Francisco Redevelopment Agency, which administers HOPWA, is aware of CATS' situation with not restoring the capital reserve accounts of A Woman's Place and requested that the board make a written commitment to restore the accounts. The board issued on February 23, 2006 a resolution to restore the reserve accounts. CATS plans to begin restoring the accounts in August 2006.

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COMPASSPOINT NONPROFIT SERVICES

CompassPoint Nonprofit Services (CompassPoint) is a nonprofit training, consulting and research organization with offices in San Francisco and Silicon Valley. CompassPoint's purpose is to increase the effectiveness and impact of people working and volunteering in the nonprofit sector. Through a broad range of services, CompassPoint provides nonprofits with the management tools, and concepts and strategies necessary to shape change in their communities.

Total Amount Received From the City in FY 2005-06: $84,533

Federal Funds Received From Public Health in FY 2005-06: $1,130

Single Audit Findings: None

Management Letter Comments: None

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CONTINUUM HIV DAY SERVICES

For many years Continuum HIV Day Services (Continuum) has been helping those most devastated by the AIDS epidemic, through programs which provide mobile health care services, food and nutrition, home care, case management, and transitional services for people whose lives are extremely chaotic, frequently suffering from mental illness and substance abuse problems, homelessness or the challenge of being released from jail or prison, all in the Tenderloin neighborhood of San Francisco. Continuum's mission is to empower and dignify the lives of under-served people with HIV/AIDS by providing innovative health and human services that prevent institutionalization, minimize harm, establish relationships, improve health and facilitate community. Continuum's services read a high-risk and vulnerable population that is unable to participate in institutionally based traditional care. Programs include:

- Adult Day Health Center
- Tenderloin Care Program
- Nurse Case Management Program
- Forensic Services
- Tenderloin Neighborhood Testing
- Learning Institute

Total Amount Received From the City in FY 2005-06: $460,977

Federal Funds Received From Public Health in FY 2005-06: $460,977

Single Audit Findings: None

Management Letter Comments:

Comment 1: Invoicing

Condition: Continuum invoiced the City's Department of Public Health AIDS Office (department) for units of service in excess of contractual limits on a contract during April 2005. In addition, Continuum invoiced the department under the same contract during May and June 2005 when the maximum units of service were invoiced during April 2005. Also, Continuum did not meet the invoice filing deadline of the 15th of each month. This was a prior audit finding. Finally, there were several instances where the Units of Service(UOS) detail rollup schedules were not included in the contract files. There were also discrepancies between the various documents used to track units of service.

Recommendation: All invoices should be reviewed by someone other than the preparer. Continuum should implement procedures in order to meet the filing deadline on a monthly basis. Finance should perform and document periodic internal control inspections to test that information in client files properly flows to the summary schedules and invoices.

Current Status: Management stated that a procedure for invoice reviewing would be implemented immediately. Management agreed to have the invoices remitted in a timely manner by the end of the fiscal year 2005/2006. Management has created a new position of clinical director, which was filled during August 2005. The clinical director is now responsible for the quality control function and performed an initial file review. Continuum has also educated the case managers and changed procedures to improve the reporting of units of service in the monthly summary reports that flow to the invoices.

Comment 2: Payroll

Condition: One employee timesheet did not have a supervisor signature. Employee files do not always have personnel action forms indicating merit increases and changes to/ from full time to less than full-time status. Finally, some employees had taken vacation, but did not have an approval form signed by a supervisor in advance.

Recommendation: All timesheets should have a supervisory signature. A history of salary and approvals of increase, merit and cost of living should be in each employee file. Any changes in the employee's full-time/part-time status should be documented in the employee files. Also, Continuum should follow their stated vacation policies or have the employee manual updated to reflect actual policies.

Current Status: Management stated that all timesheets will have a second layer of review to ensure that all timesheets are properly approved. All employee files will be reviewed to ensure that proper support is in the files.

Comment 3: Special Events

Condition: Continuum has provided the same value for benefits received at their special events over the past few years.

Recommendation: Continuum should review this value for reasonableness for each special event to ensure that the proper IRS deduction information is provided to donors attending their special events.

Current Status: According to Continuum, this will be implemented immediately.

Comment 4: Whistle-Blower and Document Destruction Policies

Condition: Continuum currently has no whistle-blower or document destruction policy in place. It is noted that Continuum does have a case file destruction policy in place.

Recommendation: Whistle-blower and document destruction (including e-mails) policies should be adopted and reviewed by legal counsel.

Current Status: Continuum does in fact have a whistle-blower or complaint policy in place which is documented in its personnel policies and procedures manual. Regarding document destruction, Continuum will have to revisit this issue and document its practices accordingly.

Comment 5: Fixed Asset Inventory

Condition: Continuum has not performed an inventory of its fixed assets in several years.

Recommendation: Continuum should perform an inventory of its fixed assets to determine that all assets are adequately captured on its fixed asset schedule and also ensure that it is not accounting for assets that no longer exist.

Current Status: Continuum performed a fixed asset inventory during the year; however it needs to be reconciled to its depreciation schedule. Any old assets that are still potentially maintained on the depreciation schedule are fully depreciated and therefore have no cost basis remaining. Continuum will work on cleaning this up during the 2006/07 fiscal year end.

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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.

Total Amount Received From the City in FY 2005-06: $1,019,731

Federal Funds Received From Public Health in FY 2005-06: $958,299

Single Audit Findings: None

Management Letter Comments: None

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COUNTY OF SAN MATEO AIDS PROGRAM

The County of San Mateo's (San Mateo) AIDS Program (Program), founded in 1985, works to prevent HIV infection and cares for individuals and families affected by HIV/AIDS in San Mateo County. The Program provides comprehensive community-based prevention and testing services, HIV related health care, social services, advocacy and referrals to community agencies providing drug treatment, housing, in-home care, food, dental care and other services.

Total Amount Received From the City in FY 2005-06: $2,139,331

Federal Funds Received From Public Health in FY 2004-05: $2,128,003

Single Audit Findings:

Finding 05-1: Special Tests and Provisions - TANF

Condition: In some of the files selected for testing, the eligibility status of individuals could not be readily verified due to inadequate documentation and record keeping. The questioned costs were $398. *Note: This is the same as Finding 04-1 from the previous fiscal year.*

Recommendation: Management should emphasize to all eligibility workers the importance of completing all required forms for eligibility determination. Also, supervisors reviewing the eligibility determinations should ensure all documents are complete and address any issues with the appropriate eligibility worker immediately.

Current Status: Management concurs and will emphasize these points to the supervisors at its Policy Operations and Services Team meetings. In October 2005, the County of San Mateo implemented CalWIN, a new automated eligibility determination system which stores and tracks all notices of action sent to a client. This feature of CalWIN is expected to assist in the documentation of required notification. In addition, management has formed a Quality Control Workgroup to assess the supervisory case review process. Furthermore, management is planning to image and electronically store all documentation currently contained in physical case file folders, a process already started with Medi-Cal cases.

Finding 05-2: Allowable Costs/Cost Principles – Ancillary and Childcare Programs

Condition: During the testing of internal control and compliance requirements for ancillary and chhildcare expenditures for the TANF program the auditors noted some incomplete documentation. They also noted that changes to the childcare plans were done manually, leaving the risk that the custodial parents had not been informed about those changes.

In addition, the auditors noted that the County's current policy that governs ancillary payments does not specify that eligibility workers are to obtain *written* approval prior to authorization of payments.

Recommendation: Management should review control procedures with case workers and supervisors to ensure that forms are completed and properly filed. In addition, management

should evaluate the risk of executing childcare plans using multiple documents and consider requiring custodial parents to sign original documents at County offices to ensure that the custodial parent agrees to information and necessary manual changes to documents.
The auditors also recommend that the County clarify its current guidelines on the approval of ancillary payments, to ensure that eligibility workkers obtain written approval from program supervisors and/or managers for expenditures exceeding the specified thresholds.

Current Status: Management concurs, and has reminded its childcare staff to obtain client signatures on each child care plan and to ensure that that all required signatures appear on the same page of the child care plan. In addition, management will review its guidelines and procedures to determine if any cost effective-changes to improve program integrity are warranted.

Finding 05-3: Cash Management - HOME

Condition: During their audit of HOME program reimbursement drawdowns, the auditors found the County had been reimbursed twice (in September and again in November) for expenditures it had incurred in July 2004. This resulted in an overpayment of $43,499 to the County.

Recommendation: Management should review and revise its draw down procedures to ensure that reimbursement requests are adequately reviewed prior to drawing down funds.

Current Status: The Financial Officer is now responsible for assuring that two staff members review each reimbursement request prior to drawing down funds.

Finding 05-4: Special Tests & Provisions – Housing Quality Standards

Condition: During their testing of compliance with Housing Quality Standards, the auditors found that five of the six projects that were selected for testing did not have timely housing quality inspections performed. Also, one project did not have documentation of its previous inspection records. *Note: This is the same as Finding 04-3 from the previous fiscal year.*

Recommendation: To assist program specialists in scheduling inspections within the required timeframe, the Department of Housing should develop a method and timeline of identifying units required on-site inspections.

Current Status: According to management, all required inspections have been completed. Also, the Department of Housing has implemented several procedural improvements, and will implement additional measures by December 31, 2006. Each active project file has been reviewed to verify that it includes an inspection tracking form showing date of last inspection, deadline for next inspection, and target for next inspection at least three months before deadline. During 2006, this manual tracking system will be augmented by a database with reminder notices to supervisors.

<u>Finding 05-5: Reporting - U.S. Office of National Drug Control Policy</u>

Condition: Testing of internal controls and compliance with reporting requirements for the High Intensity Drug Trafficking Area (HIDTA) program revealed that the quarterly Financial Status Reports were not prepared on the cash or the accrual basis. Instead, expenditures were reported in the quarter in which reimbursement was requested from the federal grantor agency.

Recommendation: Management should carefully review the instructions provided for the financial status reports to ensure that the reports are prepared on an acceptable accounting basis. In addition, management should contact the federal grantor agency directly to discuss the necessary corrective action for the financial Status Reports that had been submitted for the current fiscal year.

Current Status: Management concurs with the finding and will begin submitting quarterly Financial Status Reports (SF-269) on an accrual basis. By doing so, quarterly expenditures will reconcile to the quarterly expenditures on the County's financial system (IFAS). The Northern California HIDTA will also contact the National HIDTA Assistance Center to determine action on prior financial Status Reports. The Sheriff's Office will engage a financial consultant to assist HIDTA in developing an internal procedural manual for reconciliation to the County's financial system, in accordance with the recommendation. Management expects this engagement to be secured by April 30, 2006, and the work fully completed by August 2006.

<u>Finding 05-6: Earmarking – Overtime Limit (U.S. Office of National Drug Control Policy)</u>

Condition: The auditors noted that the Northern California HIDTA (NC HIDTA) office diverts the responsibility for keeping track of individual employee overtime payments to the initiative commanders. Although the NC HIDTA Director reviews and approves the overtime reimbursements to the initiatives, and the financial officer compares the amount of payments to the initiatives' approved budget, there may be a risk that cumulative overtime payments made to an individual exceeds the overtime cap during the fiscal year.

Recommendation: The NC HIDTA office should develop and implement policies and procedures to track and monitor overtime payment to initiative officers. Although the overtime limit pertains to all grant awards from the Office of National Drug Control Policy (ONDCP), NC HIDTA should, as a preventive measure, keep track of the overtime payments made to the officers with HIDTA funds. Furthermore NC HIDTA may request written certification from the initiatives or enter into formal written agreements with them to ensure that the initiative leaders fully understand their responsibilities to comply with the overtime limit requirement, especially if they receive funding from other ONDCP programs.

Current Status: According to management, because the NC HIDTA has found it extremely difficult to obtain information regarding overtime paid to individuals using federal funding other than HIDTA funds, the NC HIDTA currently tracks overtime paid to individuals using HIDTA funds and ensures that individuals do not exceed the maximum limit. The Sheriff's Office will also assist the HIDTA Fiscal Officer in developing an EXCEL worksheet for tracking of quarterly overtime costs, as reported by HIDTA Initiatives, for those positions/individuals receiving HIDTA funds through one or more initiatives. Because just tracking overtime payments using HIDTA funds does not ensure that the NC HIDTA is in compliance with the ONDCP overtime requirement, the NC HIDTA is currently working on a process to ensure compliance.

Finding 05-7: Procurement and Suspension and Debarment

Condition: During a review of internal control over procurement with the suspension and debarment requirement, the auditors found that the NC HIDTA office and the Sheriff's Office do not have any policies and procedures to verify that the contractors or non-federal entities are not suspended or debarred or otherwise excluded when a procurement contract is made.

Recommendation: The NC HIDTA office and the Sheriff's Office should implement policies and procedures that will enable them to verify that potential contractors are not suspended or debarred before the procurement contracts are made. The verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the contractor, or adding a clause or condition to the covered transaction with the contractor. Management should retain proper documentation of the verification in the procurement file for each respective contractor.

Current Status: The NC HIDTA has adopted the purchasing policy of its fiduciary, San Mateo County Sheriff's Office and relies on the Purchasing Division to ensure that contracts and purchases are not conducted from those contractors who are suspended or debarred. To ensure that the NC HIDTA complies with the requirements of OMB Circular A-133 in regards to debarment and suspension, the NC HIDTA will inform the Purchasing Division of this requirement and request the Purchasing Division to verify that the contractor is not on the debarment or suspension list by checking the Excluded Parties List System, which is maintained by the GSA. The Sheriff's Office concurs with this finding. The non-compliance was inadvertent and resulted primarily from the separation of Sheriff's contract development/ management and the Purchasing Division from the Sheriff's grant management function. It is taking immediate steps to implement corrective action by instituting the policy of checking the Excluded Parties Lists System (EPLS) website as an integral part of the Sheriff's Office contract development procedural checklist for all contracts. In addition, the Sheriff's Office will advise County Purchasing Division

Finding 05-8: Davis Bacon Act

Condition: The County's policies require all contractors and subcontractors participating in federally funded projects to submit certified payroll documentation weekly on the Friday following the end of a work week. Ten of the 40 certified payrolls that the auditors selected for testing were not received within the required timeframe of one week after the end of the pay period. In addition, six items did not have documentation of a "received date", therefore the auditors could not verify if those items had been received within the required time.

Recommendation: The County's Capital Projects Division should establish controls to ensure that all certified payroll required for submission are received in a timely manner and are reviewed before disbursing payments to contractors/subcontractors. In cases where certified payrolls are not received timely (or not at all) the Capital Projects Division should document why and indicate the corrective measures taken.

Current Status: The County has entered into an agreement with Turner Construction (Turner) to provide construction management services for the Youth Services Center Project. The agreement requires that Turner must comply with the County's general conditions, which include compliance with the California Labor Code, regarding payment of prevailing wages. Turner requires its subcontractors to submit monthly-certified payrolls and labor rates. These are reviewed before payments are made. Certified payrolls are kept on the project site and are accessible to the County at any time. The Capital Projects Division will establish procedures to periodically review and document that certified payrolls are being received in a timely manner and are being reviewed by Turner before payments are made to subcontractors.

Finding 05-9: Procurement and Suspension and Debarment

Condition: During a review of the County's compliance with suspension and debarment requirements, the auditors found that the County's Capital Projects Division (CPD) does not have any policies and procedures to verify that the contractors or non-federal entities are not suspended or debarred or otherwise excluded when a procurement contract is made. As such, the CPD did not obtain required certification from its construction management firm on the Youth Services Center project or review the Excluded Parties List system (EPLS) issued by General Services Administration (GSA)

Recommendation: The CPD should develop and implement policies and procedures that will enable them to verify that potential contractors are not suspended or debarred before the procurement contracts are made. The verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the GSA, collecting a certification from the contractor, or adding a clause or condition to the covered transaction with the contractor. Management should retain proper documentation of the verification in the procurement file for each respective contractor.

Current Status: Management agrees and states that, during the audit, the Capital Projects Division staff checked the EPLS and verified that Turner Construction is not on the list of suspended or debarred entities. Staff had relied upon a checklist provided by the State Board of Corrections (now California Corrections Authority), the state agency that administers the federal grant, to ensure compliance with grant reporting requirements. This checklist did not contain the requirement to verify that potential contractors are not suspended or debarred. Staff has added this requirement to the checklist to ensure that this verification is performed and documented before selecting future contractors.

COUNTY OF SAN MATEO
(continued)

Finding 05-10: Violent Offender Incarceration and Truth Sentencing Incentive Grants

Condition: The County did not capture $8 million in federal expenditures under the Violent Offender Incarceration and Truth in Sentencing Incentive Grant on the draft schedule of expenditures of federal awards. This program is considered a high risk Type A program and was required to be tested as a major program as part of the fiscal year 2005 Single Audit. The auditors did audit this program as part of the Single Audit, but the County's delay in capturing the information caused the County to have to file a second extension past their Single Audit reporting deadline of March 31, 2006.

In addition, the auditors noted that the County identified two grants with expenditures for the current year and prior years that were captured in the SEFA schedules:

- 10.561 California Nutrition Network - $441,958 ($321,299 relates to previous years' expenditures)
- 93.778 Medical Assistance Program, Childhood Lead Poisoning Prevention - $344,498 ($277,670 related to previous years expenditures)

These expenditures were also included in their SEFA after Single Audit March 31, 2006, thus were almost excluded from the SEFA.

Recommendation: To improve oversight of grants management and improve the capture of information for year-end reporting requirements, the County should establish a "Grants Manual" for all departments to provide guidance to staff when assessing requirements related to proper grant management. The manual should include guidance on identification of funding source (federal, state, and other), guidance on identification of reporting requirements and timing, guidance on when to record revenues and expenditures in the general ledger system, and a year-end reconciliation requirement to ensure that revenues and receivables are properly captured. In addition, the County should consider designating a County-wide grants manager to assist departments in properly identifying funding sources and other program requirements to ensure that the County is complying with all requirements.

Current Status: The County Manager's Office agrees. The County recognizes that the existing decentralized structure to report federal expenditures presents a risk of non-reporting of expenditures when there is staff turnover within operating departments, and that better coordination is needed to comply with reporting requirements for the single audit. The Controller's Office has indicated that the County's fiscal officers need to be provided with information regarding their responsibilities to comply with single audit requirements in addition to complying with reporting requirements for specific grants. This will be an agenda item for the October meeting of the fiscal officers. The County Manager's Office will convene a workgroup of fiscal officers in those departments that currently manage grants to develop an inventory of reportable expenditures and to develop a grants manual, similar to the contracts handbook that now exists to provide guidance to contract coordinators in the County. The workgroup should be formed by Fall 2006. The Department of Public Health will continue to closely review State grant documents, especially new ones, for potential language indicating that the source of funds may be federal. They will also work with the County Manager's Office as they see fit in implementing the recommendation.

COUNTY OF SAN MATEO
(continued)

Finding 05-A: San Mateo Medical Center-No Secondary Level Review

Condition: The core of the Medical Center's GAAP financial reporting process is an internally developed Excel spreadsheet. The Medical Center's accounting manager is responsible for compiling information provided by the County's IFAS system and the patient billing system, into this spreadsheet. Additionally, numerous off-book entries are tracked using this spreadsheet. Once completed, the spreadsheet serves as the "auditable trial balance". However, the spreadsheet is cumbersome to use, heavily reliant on formulas and submitted to audit without being subject to a secondary level of review. As a result, the spreadsheet requires numerous adjustments, revisions and corrections by both auditors and staff. In fact, the Medical Center averages more than 20 audit adjustments each year and has restated financial results in two of the last three years to correct errors.

Recommendation: The Chief Financial Officer or a qualified designee (e.g., a Controller) should play an active role in monitoring and reviewing the financial reporting process. This monitoring and review process should be performed prior to audit fieldwork. A typical review should include: checking for spreadsheet formula errors, ensuring proper consolidation, transfer, mapping and rollup of account balances, reconciling related party (County) transaction to records at the Controller's Office, and verifying proper posting of eliminations and "off-book entries". Management should place continued emphasis on auditor's recommendations noted in prior years to (1) complete the policies and procedures manual for the audit process, (2) make training a priority for accounting staff, and (3) improve communication and coordination with the Controller's Office in preparing for audit.

Current Status: Management concurs with the need for increased monitoring and review of the financial reporting process. In consideration of the current level of responsibilities and broad range of duties assigned to the Chief Financial Officer, management will investigate the desirability of adding a Controller position to strengthen internal accounting procedures and controls, improve communication with the San Mateo County Controller's Office and fulfill the critical need for a secondary review of the financial reports. Management plans to present this recommendation at the Medical Center's Board of Director's meeting in February 2006.

Management Letter Comments:

Comment 1: San Mateo Medical Center – No Secondary Level Review

Condition: The core of the Medical Center's GAAP financial reporting process is an internally developed Excel spreadsheet. The Medical Center's accounting manager is responsible for compiling information provided by the County's IFAS system and the patient billing system, into this spreadsheet. However, the spreadsheet is cumbersome to use, heavily reliant on formulas and submitted for audit without being subject to a secondary level of review. As a result the spreadsheet requires numerous adjustments, revisions, and corrections.

Recommendation: The chief financial officer or a qualified designee (a Controller) should play an active role in monitoring and reviewing the financial reporting process. This monitoring and review process should be performed prior to audit fieldwork. Additionally, management should place continued emphasis on the recommendations noted in prior years to complete the policies and procedures manual for the audit process, make training a priority for accounting staff, and improve communication and coordination with the Controller's Office in preparing for audit.

Current Status: Management concurs with the need for increased monitoring and review of the financial reporting process. In consideration of the current level of responsibilities and broad range of duties assigned to the chief financial officer, management will investigate the desirability of adding a Controller position to strengthen internal control procedures and controls, improve communication with the Controller's Office and fulfill the critical need for a secondary review of the financial reports.

Comment 2: Grants Management

Condition: The County did not capture $8 million in federal expenditures under the Violent Offender Incarceration and Truth in Sentencing Incentive Grant on the draft schedule of expenditures of federal awards (SEFA). In addition, the County identified expenditures related to two other federal grants that were not captured in the draft SEFA prior to the single audit deadline of March 31, 2006, and were almost excluded from the SEFA. Also, since 2003, the County has received five deficiency letters from the California Office of Criminal Justice Planning and the Office of Emergency Services related to 10 different state funded grants that were not properly included in the single audit report during the fiscal years 1999 through 2002.

Recommendation: The County should establish a grants manual for all departments to provide guidance to staff when assessing requirements related to proper grant management. The County should also consider designating a County-wide grants manager to assist departments in properly identifying funding sources and other program requirements to ensure that the County is complying with all requirements.

Current Status: The County agrees and recognizes that the existing decentralized structure to report federal expenditures presents a risk of non-reporting of expenditures when there is staff turnover within operating departments, and that better coordination is needed to comply with reporting requirements for the single audit.

Comment 3: Bank Reconciliation Procedures

Condition: At June 30, 2005, the auditors noted a net unreconciled difference between the general ledger and the bank statement balance of $79,454. This unreconciled difference resulted from the accountant using the unadjusted Treasurer's daily cash balance, which does not properly reflect the County's carrying balance of cash and investments on a particular date, to reconcile to the general ledger.

Recommendation: The County should use the adjusted Treasurer's daily cash balance to prepare the year end reconciliation to the general ledger and resolve unreconciled differences noted. This will ensure that the material reconciling differences are captured and properly recorded. The cash and investments reconciliation procedures should be documented for both processes identified, including reports necessary to complete the process, procedures to resolve unreconciled differences, and individuals responsible for reviews and approvals.

Current Status: The recommendations are in process. The Department of Housing is in the process of evaluating the loan portfolio and developing a methodology to analyze the collectibility of loans.

Prior Year Management Letter Comments:

PY Comment 1: Mortgages Receivable – Loan Loss Reserve

Condition: The County's Housing Department had not developed an adequate methodology for establishing an accurate loan loss reserve balance.

Recommendation: The County should revisit their current policies for establishing the loans receivable reserve balance and consider revising them for amortized and deferred loans to develop an adequate methodology in accordance with U.S. generally accepted accounting principles.

Current Status: The recommendations are in process. The Department of Housing is in the process of evaluating the loan portfolio and developing a methodology to analyze the collectibility of loans.

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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 75 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.
- Richard M. Cohen Residence – A ten bed, 24-hour care assisted living residence for homeless men and women with disabling HIV or AIDS.

Total Amount Received From the City in FY 2005-06: $956,289

Federal Funds Received From Public Health in FY 2005-06: $412,457

Single Audit Finding:

Finding 05-1: Cost Reports

Condition: While actual total costs exceed amounts reimbursed, individual line items in some cost reports were based on available budget rather than on actual corresponding costs.

Recommendation: Dolores Street should ensure that all employees are adequately trained in their duties. A person with appropriate knowledge and background skills should review output for accuracy and compliance before it is submitted for reimbursement.

Current Status: The management of Dolores Street acknowledges and agrees with the finding and offers the following explanations and remedies:

1. During the period in question, Dolores Street was without a finance director to oversee the bookkeeper in question. The previous finance director left on short notice and did not give adequate training to his staff for his expected absence.
2. The auditor notes that the problem identified in the finding was remedied prior to the end of the fiscal year. This was accomplished by: (a) Dolores Street contracted with a consulting accountant after the beginning of the fiscal year and he provided oversight to the bookkeeper. (b) During the period in question and going forward, the bookkeeper has developed strong professional relationships with contract officers who have been helpful in answering his questions and preparing him for his contract reporting responsibilities.
3. The bookkeeper is scheduled for further training in fiscal year 2006-07, through professional development programs such as CompassPoint, Nims & Associates, and other organizations.
4. Dolores Street has reconstituted a Senior Management Team comprised of a new executive director, program and department directors to review financial documents, and prepare and develop the organization's budgets and contracts.
5. The executive director and the program director now review monthly invoices for accuracy and compliance before they are submitted for reimbursement.

DOLORES STREET COMMUNITY SERVICES, INC.
(continued)

Prior Single Audit Finding:

Finding 04-1: Journal Entries

Condition: Dolores Street staff made entries to the books of account that had no supporting documentation and which were to accounts with no logical relationship to each other, resulting in incorrect balances.

Recommendation: Restrict access to the journal entry function to qualified persons. Ensure that supporting documentation and calculations are attached. Each journal entry should be restricted to account with logical relationships. The general ledger should be reviewed monthly and balance sheet accounts reconciled.

Current Status: During the year, Dolores Street implemented procedures to ensure that general ledger account balances were reconciled to supporting documentation.

Finding 04-2: Inaccurate Information

Condition: Dolores Street continued recording revenue after the contract maximum had been reached; therefore, it did not have accurate information on which to base financial decisions and reports.

Recommendation: The general ledger should be reviewed monthly with accounts receivable accounts reconciled to amounts that Dolores Street actually expects to receive. Also, Dolores Street should limit revenue to agreed-upon amounts. Management should review financial statements monthly.

Current Status: No overreporting of revenue was noted.

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.

Recommendation: Signed checks should be given to someone other than the preparer for mailing. 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.

Current Status*:* Signed checks are not mailed by the director of administration rather than the bookkeeper who prepares the checks. Check requests are approved by program directors or the executive director. All appropriate staff will receive in-house training on segregation of duties.

DOLORES STREET COMMUNITY SERVICES, INC.
(continued)

Comment 2: Credit Card Purchases

Condition: Receipts were not present for several credit card statements tested.

Recommendation: All employees should be required to submit receipts and documentation as to the business purpose of the expenditure for purchases made on Dolores Street's account.

Current Status*:* Credit cards may only be used for purchases regarding business or activities directly related to Dolores Street. All credit card purchases require receipts to be submitted by employees on the next working day after the purchase is made. If the bookkeeper receives a credit card bill for purchases which he does not have a receipt, he shall prepare a memo (via email or hard copy) to the employees who have made the purchase requesting those receipts. This memo shall be cc'ed to the executive director. If an employee does not turn in receipts for purchases, his or her access to the credit card will be rescinded. All appropriate staff will receive in-house training on credit card use.

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EPISCOPAL COMMUNITY SERVICES OF SAN FRANCISCO

Episcopal Community Services of San Francisco (ECS) is a nonprofit organization incorporated in the State of California. ECS is dedicated to helping homeless and very low-income adults and families find positive solutions to their immediate and long-term needs and to move with dignity toward greater stability and housing by providing compassionate, individualized services and access to comprehensive resources in the community. ECS serves more than 5,500 adults and families each year with programs in four main areas: shelters, supportive housing, skills and senior centers.

Total Amount Received From the City in FY 2005-06: $9,992,236

Federal Funds Received From Public Health in FY 2005-06: $101,127

Single Audit Findings: None

Management Letter Comments: None

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FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.

Family Service Agency of San Francisco, Inc. (the Agency) is a private, non-sectarian, not-for-profit social service agency, which receives funding from a number of sources, a substantial portion of which is from the Bay Area. The Agency's mission is to strengthen families by providing caring, effective human services with a special emphasis on low-income families, children, elderly, and the disabled. The Agency's programs include: Mental Health Services; Family Development Center; Teenage Pregnancy and Parenting Project; and, Senior Programs.

Total Amount Received From the City in FY 2005-06: $6,039,881

Federal Funds Received From Public Health in FY 2005-06: $125,726

Single Audit Findings: None

Management Letter Comment:

Comment 1: Accrued Vacation

Condition: Some employees have accrued vacation in excess of the internal vacation policy limit.

Recommendation: Management should adhere to the policy on maximum vacation accrual and management should encourage those employees to take vacation in order to reduce the accrued vacation liability on the financial statements.

Current Status*:* The Agency will implement monthly accrual reviews designed to enforce the vacation accrual policy.

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FRIENDSHIP HOUSE ASSOCIATION OF AMERICAN INDIANS, INC.

Friendship House Association of American Indians, Inc. and Affiliates (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 2005-06: $568,491

Federal Funds Received From Public Health in FY 2005-06: $210,053

Current Single Audit Findings:

Finding 05-1: Other Program Income

Condition: Friendship House's reporting tracks each grant/contract with its own grant code. However, the client fees received are recorded in a general fund not with the grant. Since the general fund is used for many different things (program and non-program), it is difficult to track whether the client fees were spent for program services.

Recommendation: Friendship House should start reporting client fees with the grant and keeping track of how they are spent.

Current Status: Friendship House accounts for program income by aggregate group amount. It also accounts for expenditures not associated with the approved contract/grant budget by group amount. Friendship House uses all other program income committed to the project to further eligible project or program objectives. In the future, the agency will account for program income by client as it is related to the specific grant or contract, by contract/grant and by client program fees paid. Friendship House has the ability to coordinate this effort by expanding its database "The Red Road Database" and manually linking the program information to the accounting system.

Finding 05-2: Reporting Program Income on the SF 1034 and SF 1035

Condition: Friendship House files forms SF 1034 and SF 1035 monthly; however, the program income has not been reported in those filings.

Recommendation: Friendship House should start including all program income in the monthly reports as required.

Current Status: Friendship House will report on the form SF 1034 and SF 1035 the source of the program income and purpose for which it was expended on a monthly basis. The agency was not aware it needed to report client fees on this report until this finding.

FRIENDSHIP HOUSE ASSOCIATION OF AMERICAN INDIANS, INC. (continued)

Finding 05-3: Client Residency

Condition: The Urban Indian Health Services program is restricted to eligible American Indian populations residing in five Bay Area Counties, County of Santa Clara, other California urban areas and within the State of California. Of the 15 clients reviewed, four clients did not have complete residence documentation.

Recommendation: Friendship House should consult with Indian Health Services to clarify the definition of residence.

Current Status: Friendship House's admission application includes a section for the client/application address, without specifically specifying the purpose and use. The address line on the application will be changed to include instructions to have the applicant specify their California residence address (prior to admission). Upon review of this finding, the agency discovered the primary use of the address line by the client applicant was including their reservation address as their permanent mailing address.

Friendship House will only serve California residents under this contract. The agency will insure the admission application is complete correctly supporting the client/occupant former address in California by providing instructions on how to complete the admission application properly. For the year ended June 30,2005, Friendship House will correct the form used to provide for clearer instructions for the applicant and collect California residence address information.

Finding 05-4: 93.959 Block Grants for Prevention and Treatment of Substance Abuse Client Residency

Condition: This program is restricted to residents of the City and County of San Francisco. Of the five clients reviewed, four of them did not have complete residence documentation.

Recommendation: Friendship House should consult with the Community Indian Health Service to clarify the definition of residence.

Current Status: The agency defines client residency based upon the contractual Memorandum of Understanding between the City and Friendship House. The City's Department of Human Services defines residency as being 15 continuous days for GA and SSIP, or 30 days for PAES, prior to the time of application. However, treatment facility residents who are in San Francisco only for the specified purpose of obtaining medical or rehabilitative treatment do not meet the City's County Adult Assistance program (CAAP) Residency Requirements.

Friendship House will consult with the Department of Human Service Community Mental Health Service department officials seeking their understanding and interpretation as to whether the Memorandum of Understanding is a suitable definition under which to operate.

Prior Single Audit Finding:

Finding 04-1: Client Fees

Condition: Friendship House's reporting structure sets up each grant/contract with its own grant code. However, the client fees received are recorded in a general fund not with the grant. Since the general fund has many other transactions (program and non-program) in it, it is difficult to track whether the client fees were spent for program services.

Recommendation: Friendship House should start reporting client fees with the grant and keeping track of how they are spent.

Current Status: Friendship House has not changed its accounting system to track client fees by program. See Finding 05-1.

Management Letter Comments:

Comment 1: Allocation of Expenses

Condition: The current cost allocation method allocates common expenses, such as rent, insurance, and utilities for each location between program and administration and is based on a square footage formula. However, within the program, the expenses are prorated based on the funding of each contract, which may or may not correlate with the actual usage. This was also a prior audit comment.

Recommendation: Friendship House should use a more direct allocation base, such as direct salary or FTE.

Current Status*:* Friendship House does not provide responses to management letter comments.

Comment 2: Form I-9 Documentation

Condition: Out of 18 employee files selected for review, two do not have an I-9 and six has incomplete documentation. This was also a prior audit recommendation.

Recommendation: Friendship House should perform a complete review of all personnel records to ensure that the I-9 documentation is complete and procedures should be established to assure proper documentation is obtained during staff orientation.

Current Status: Friendship House does not provide responses to management letter comments.

Recommendation: Another employee should be assigned to receive and review the paychecks and payroll reports from ADP for suspicious transactions before turning over the paychecks and reports to the payroll clerk.

Current Status*:* Friendship House does not provide responses to management letter comments.

Comment 4: Personnel Action Form

Condition: Friendship House's current method of communicating payroll activities is inefficient. This was also a prior audit recommendation.

Recommendation: To improve payroll documentation and to ease the job of the payroll clerk, Friendship House should adopt the use of a standard personnel action form, which will provide concise information regarding starting date for new hires, pay rate, etc. and should have proper authorization and employee's signatures.

Current Status*:* Friendship House does not provide responses to management letter comments.

Comment 5: Accounts Payable Approval

Condition: Current policy requires all invoices be approved by the CEO or by the CFO in the absence of the CEO. The stamp used for this process has three approval slots but the policy only requires one approval.

Recommendation: To clarify the approval policy, Friendship House should obtain a new stamp with one approval slot and one data-input slot instead of one with three approval slots.

Current Status*:* Friendship House does not provide responses to management letter comments.

Comment 6: New Timesheet

Condition: Friendship House started using a new timesheet in September 2004. This new timesheet only has three columns for program charge: Federal, CCSF and UIHBI. The general requirement of OMB Circular A–122, Cost Principles for Nonprofit Organization requires costs be substantiated with time records.

Recommendation: Since there is more than one contract within each of the three categories, a sub-category of contracts is required. On the other hand, if staff do not know what contract they should charge the time to because of multiple findings, the function code can be used instead of Federal, CCSF and UINBI code.

Current Status*:* Friendship House does not provide responses to management letter comments.

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; Free Medical Clinic; Rock Medicine; and Research, Education and Treatment.

Total Amount Received From the City in FY 2005-06: $8,261,716

Federal Funds Received From Public Health in FY 2005-06: $3,000,417

Single Audit Findings:

Finding 05-1: Grant Administration

Condition: From January to June 2005, the administration and contract department did not provide program directors with timely, accurate detailed expense reports that captured all expenditures reconciled to the general ledger; in addition actual-to-budget expenditure reports were not provided to program directors during this period as well. Reports were provided over the last six months of the year, but should have been provided over the entire year. This was also a prior year finding.

Recommendation: Haight Ashbury should create and maintain grant administration procedures that provide accurate, timely information on costs incurred, cost allocations, and budget-to-actual comparisons to program directors as well as ensure that procedures are within grant compliance requirements.

Current Status: Beginning in July 2005, department and contract "direct expense reports" (DER's) were prepared on at least a quarterly basis and distributed to program directors for review. These DER's showed revenue and expenses on a line item basis for each individual contract and were also rolled up to the department level. Subsequent DER's were produced in September and December of 2005. DER's have been produced quarterly in 2006. Beginning in 2007, Haight Ashbury expects to be producing DER's on a monthly basis.

Finding 05-2: General Ledger Account Reconciliations

Condition: Certain balance sheet accounts were not reconciled during the fiscal year and prior to the beginning of the audit fieldwork. Prior to completion of the audit fieldwork, these accounts were ultimately reconciled. However, this was completed several months after the fiscal year-end. This was also a prior year finding.

Recommendation: In order to make the financial reports generated by the accounting system as meaningful as possible, Haight Ashbury should reconcile significant general ledger accounts (i.e., cash, accounts receivable, and accrued expenses) to supporting documentation on a monthly basis. A benefit of monthly reconciliations is to discover errors as well as to check that the recording of transactions is accurate and proper. A further benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period.

Current Status: Management agrees that not all balance sheet accounts were reconciled on a monthly basis. Management has plans in place to hire additional staff and document the procedures required to ensure that the balance sheet accounts are reconciled on a monthly basis in 2007.

A corrective action plan has been instituted since the arrival of the new Executive leadership as of April 2005. The corrective plan commenced with the following priorities:

1. Manage cash flows to address ability to fund operating cost on a timely basis as well as address strategic program expansion to improve financial forecast.
2. Restore confidence with Haight Ashbury's primary contracting agency (City and County of San Francisco) in order to renew and obtain new contracts for 2005/06.
3. Manage Haight Ashbury's operations, including cost reductions and sale of assets, as well as financial staff and processes restructure.
4. Complete the 2005 financial statement and compliance audits.
5. Address the deficiencies in the financial accounting area cited in the 2004 audit results, including the strengthening of processes across departments such as,
   a) Build capabilities in finance personnel to include analytical training, data management, and software training (i.e. Fundware, Excel)
   b) Review adequacy of current systems, i.e., payroll time keeping.
   c) Develop policies and procedures both in finance and other departments to improve accounting processes, and provide adequate financial controls.
   d) Recruit strong financial leadership in the positions of CFO, Contracts Manager, and Controller.

Since April 2005, the financial management of Haight Ashbury has improved and many of the areas cited in the 2004 audit have been addressed. There is an on-going financial management to comprehensively address the audit concerns, as well as improve the financial operations to levels of best practice to support Haight Ashbury's programmatic mission. This includes on-going engagement with the audit team, Audit Committee, and program and executive leadership.

Management Letter Comments:

Comment 1: Cash

Condition: Haight Ashbury does not restrict wire transfers of cash to pre-authorized accounts; funds may be transferred to any bank account indicated by the originator of the wire transfer.

Recommendation: Haight Ashbury should coordinate with its banks to restrict the wire transfer of cash to only accounts that have been preauthorized by management in order to mitigate the potential for unauthorized transfer of funds to improper bank accounts.

Current Status: Not available.

Comment 2: Fixed Assets

Condition: Haight Ashbury tracks all records for fixed assets on spreadsheets. Further, at the present time, there is no procedure for reconciling detailed fixed asset records to the general ledger on a regular basis. In the current year, it was only after significant effort that the detailed fixed asset ledger was reconciled to the general ledger.

Recommendation: Haight Ashbury should reconcile its general ledger fixed asset account to the detailed records on a quarterly basis.

Current Status: Not available.

Comment 3: Accruals and Prepaid Account Balances

Condition: Haight Ashbury has numerous accrual and prepaid account balances for which no analyses were prepared during the year; the auditors recorded several journal entries to properly state accrual and prepaid account balances.

Recommendation: Haight Ashbury should perform analyses of all nonstandard accrual and prepaid accounts on a periodic basis to determine that the account balance is adequate and properly stated.

Current Status: Not available.

Comment 4: Contributions

Condition: While the majority of Haight Ashbury's funding is from contracts and grants, occasionally Haight Ashbury may receive contributions from donors in cash or as an unconditional promise to fund future cash amounts and not record these in the proper period.

Recommendation: Since contributions are not commonplace, the auditors emphasize that all contributions should be recorded in accordance with SFAS 116, *Accounting for Contributions Received and Contributions Made*. As such, Haight Ashbury should recognize unconditional promises to give as contributions revenue and receivables in the period in which the promise is received.

Current Status: Not available.

Comment 5: In-Kind Revenue and Expenses

Condition: Haight Ashbury's valuation method for the in-kind revenue and expense donated services is based on a formula agreed upon by Haight Ashbury and their workers' compensation insurance provider in 2000. While this valuation may have had some relevance at some point in time, it no longer relates to the fair market value of services received. This was also a prior year management letter comment. Further, Haight Ashbury did not record any in-kind revenue or expenses in the general ledger at December 31, 2005.

Recommendation: Haight Ashbury should update its methodology of valuing in-kind contributions a minimum every other year, to ensure that the most accurate value is being given to these services. Further, Haight Ashbury should perform periodic analyses of in-kind contributions and ensure the revenues and expenses are recorded in the general ledger.

Current Status: Not available.

Comment 6: Journal Entries

Condition: Haight Ashbury's policy is that all journal entries be reviewed by an appropriate member of management. However, in 2005, the documentation of this review was not always evidenced on the related journal entry.

Recommendation: Haight Ashbury should adopt a policy whereby all journal entries will be approved by a designated member of management and such review will be documented on the related journal entry. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. All journal entries should be accompanied by full explanation and by reference to adequate supporting data.

Current Status: Not available.

Comment 7: Policies

Condition: Haight Ashbury did not have a written procedures manual documenting all accounting policies and procedures. Further, Haight Ashbury has adopted a "code of conduct" for its employees, but the code does not address the methodology to be followed by employees in the reporting of suspicious or fraudulent activity. These items were also prior year management letter comments.

Recommendation: Haight Ashbury should formally document accounting policies and standard procedures. This will help in training staff and ensure that the accounting records are properly maintained in accordance with the policies set and with generally accepted accounting principles. Haight Ashbury should adopt and implement a clearly defined policy and related procedures to address the reporting of instances, allegations, or suspicions of fraud that may have a material impact on Haight Ashbury's financial statements.

Current Status: Not available.

Comment 8: Network Security

Condition: Given the increased awareness and requirements surrounding privacy laws, most entities can benefit from additional network security services. Due to the rising instances of network penetrations by “hackers”, identity theft and/or theft of Haight Ashbury’s bandwidth, network security has become a hot topic and a crucial part of an organization’s internal control environment.

Recommendation: Haight Ashbury should evaluate the various types of network security services being offered and consider the implementation of certain of these network security services in order to strengthen the controls surrounding its accounting and other electronic confidential information (e.g. its accounting records, personnel information, vendor names and addresses, etc.). The auditors offered to provide Haight Ashbury with the names of companies that provide such services.

Current Status: Not available.

Comment 9: New Auditing Standard

Condition: Effective for the December 31, 2007 financial statement audit, SAS 112, *Communicating Internal Control Matters Identified in an Audit* establishes standards and provides guidance to auditors for communicating matters related to an entity’s internal controls. This standard defines new terms and redefines existing terms for evaluating internal control deficiencies. This means that entities must have the technical expertise in-house to present financial statements in accordance with generally accepted accounting principles, including footnote disclosures. Currently, many non-profit entities do not have the tools and/or personnel capable of creating GAAP financials without the assistance of their external auditor.

Recommendation: Haight Ashbury should consider implementing an accounting research tool to provide up-to-date accounting guidance and disclosure checklist tools, which will enable management to create full disclosure GAAP financials in the future.

Current Status: Not available.

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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. Horizon receives grants primarily from the City and County of San Francisco, Department of Health through the Department of Community Behavioral Health Services.

Total Amount Received From the City in FY 2005-06: $1,738,825

Federal Funds Received From Public Health in FY 2005-06: $842,500

Single Audit Findings: None

Management Letter Comment:

Comment 1: Cash Receipt Log

Condition: Horizons did not maintain a cash receipt log of all incoming mail containing cash receipts/checks.

Recommendation: Horizons should maintain a cash receipts log. Also, this log should be maintained by someone other than the operations director, who has too much involvement in the recording and depositing of cash receipts/checks. Periodic reviews of the cash receipt log should be performed by management as deemed necessary.

Current Status: Horizons immediately implemented the recommendation as follows:

1. The Management Assistant/Receptionist receives agency mail and sorts accordingly.
2. The Management Assistance/Receptionist will separate all incoming funding source checks and/or cash receipts, log them in the Check Log Register, and record the following data for each check and/or cash receipts: funding source, program, reimbursement period, date received, date of check, check number, and amount of check.
3. After the Management Assistant/Receptionist has completed logging each check and/or cash receipt, he/she will hand carry it to the Operations Director.
4. The Operations Director will record each check and/or cash receipt in financial database, complete a deposit form, make a copy of each check and /or cash receipt and deposit form, hand carry it to our bank, and deposit it. The copy of the check and/or cash receipt, deposit form and deposit confirmation will be filed in the administration file/Union Bank of California.
5. For quality assurance purpose, at the end of each month, the Management Assistance/Receptionist will provide a copy of the check Log Register, to Operations Director and Finance Manager.

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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 2005-06: $3,531,575

Federal Funds Received From Public Health in FY 2005-06: $533,130

Single Audit Findings: None

Management Letter Comments: None

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IRIS CENTER WOMEN'S COUNSELING & RECOVERY SERVICES, INC.

Founded in 1977, the Iris Center Women's Counseling and Recovery Services, Inc. (IRIS Center) is a 501(c)(3) nonprofit corporation organized in the state of California. The IRIS Center provides mental health services, outpatient substance abuse treatment, HIV prevention and education, therapeutic child development and child and family therapy to underserved and low income adults and young women. The mission of the IRIS Center is to provide high quality education along with prevention and intervention services to uninsured/underinsured women and their families. IRIS Center's vision embraces "women helping women" to build strong families, while improving life for all women and children through promoting self-awareness, self empowerment and healing.

Total Amount Received From the City in FY 2005-06: $1,213,175

Federal Funds Received From Public Health in FY 2005-06: $481,250

Single Audit Findings: None

Management Letter Comments: None

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JAPANESE COMMUNITY YOUTH COUNCIL

Japanese Community Youth Council (Council) 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. Council operations include several programs for daycare, recreation, tutorial and job placement, as well as substance abuse prevention programs. The Council receives approximately 85 perccent of its annual budget from governmental sources.

Total Amount Received From the City in FY 2005-06: $5,930,460

Federal Funds Received From Public Health in FY 2005-06: $790,000

Single Audit Finding: None

Management Letter Comment:

Comment 1: Bingo

Condition: The Council does not reconcile its cash receipts to supporting documentation periodically on a surprise basis.

Recommendation: Supporting documentation should be reconciled to cash receipts by a person with no other bingo responsibilities periodically on a surprise basis.

Current Status: The Council performed an internal audit of its bingo program and implemented this recommendation.

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LARKIN STREET YOUTH SERVICES

Larkin Street Youth Services (Larkin Street), incorporated in the state of California, is a private community-based organization founded in 1984 as a neighborhood effort to help homeless and runaway youth move beyond street life. Over the past twenty years, Larkin Street has grown into an agency nationally recognized for its innovative housing, psychosocial support, and medical programs, which serve more than 2,000 young people each year. The agency's continuum of services is designed to respond to youths' immediate emergency needs, while encouraging them to participate in programs that help them make a successful transition to independent, productive adulthood. Larkin Street's primary source of revenues is from government contracts, grants and contributions from the general public.

Total Amount Received From the City in FY 2005-06: $3,564,913

Federal Funds Received From Public Health in FY 2005-06: $308,192

Single Audit Findings: None

Management Letter Comments: None

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LATINO COMMISSION ON ALCOHOL AND DRUG ABUSE SERVICES OF SAN MATEO COUNTY

The Latino Commission on Alcohol and Drug Abuse Services of San Mateo County (Latino Commission) is a tax-exempt corporation, organized under Section 501(c)(3) 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.
Latino Commission was incorporated on April 14, 1992. On October 1, 1992 the Latino Commission assumed responsibility for the Recovery Housing operation, which was established in 1991 by the California Hispanic Commission on Alcohol and Drug Abuse, Inc. of Sacramento, California. The Transitional Housing Program began in April 1993.

Total Amount Received From the City in FY 2005-06: $1,034,411

Federal Funds Received From Public Health in FY 2005-06: $592,500

Single Audit Findings: None

Management Letter Comments: None

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LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA

Lutheran Social Services of Northern California (Lutheran) is a nonprofit organization headquartered in Oakland, California. Lutheran serves as a social service agency to all of Northern California by providing professional counseling and promotion of welfare work to all persons within society. Lutheran's principal sources of funding are contract service fees from governmental agencies and contributions.

Total Amount Received From the City in FY 2005-06: $998,749

Federal Funds Received From Public Health in FY 2005-06: $913,670

Single Audit Findings: None

Current Management Letter Comment:

Comment 1: Cash disbursements: Sequential, Numerical Check Control

Condition: Several checks dated subsequent to fiscal year end were written and issued in the check sequence prior to the final checks of the fiscal year.

Recommendation: Strict numerical control should be kept over all checks issued and checks should be issued in sequence as much as possible.

Current Status: Lutheran is implementing new accounting software as of 7/1/06 which will allow them to run missing check reports to correct that issue.

Prior Management Letter Comments:

Comment 1: Financial Projections

Condition: Lutheran's strategic planning process does not incorporate the development of financial projections, which considers and contemplates anticipated trends in social services as well as the availability of public and private financing in the San Francisco Bay Area.

Recommendation: Lutheran's strategic planning process should incorporate the development of financial projections. Financial projections should also consider the need for any capital improvements and long-term maintenance projects for the property that Lutheran has recently acquired. The projections should also consider Lutheran's current programs and the continued availability of government funding and contributions, given the reliance that Lutheran has on government funding for its programs.

Current Status: Anticipating numerous new board member appointments effective January 1, 2006, a new strategic planning process will begin during 2006. At that time, the board will consider and incorporate the development of financial projections in regards to capital needs for the property acquired by Lutheran last year. The board will also consider the feasibility of developing this site for housing, health and social services needs of the local community.

Lutheran agrees with this approach and will take the need for long-term property management strategies into consideration in the acquisition of other potential sites in Northern California.

Comment 2: Conflict of Interest

Condition: Lutheran does not review its current conflict of interest policy to ensure that is complete and identifies potential conflicts other than those that are financial in nature.

Recommendation: Lutheran should review its current conflict of interest policy. Directors and senior managers should review the policy and sign a conflict of interest statement on an annual basis. Directors should also acknowledge and identify any potential conflicts that they may have. This includes identifying any conflicts that directors who serve on the board of any of its affiliates.

Current Status: The CEO prepared for board approval an amended conflict of interest policy for adoption at the December 3, 2005 meeting.

Comment 3: Information Systems –Internal Controls

Condition: Lutheran does not have a financial Information system to integrate the donor receipts process.

Recommendation: Lutheran may want to consider purchasing the companion financial system product, Financial Edge, from Blackbaud. This will integrate the donor receipts process from collection to posting in the G/L and provide Lutheran with a system that is tailored for the non-profit industry.

Current Status: This remains a high priority for Lutheran. During this past year, Lutheran has upgraded internal accounting staff positions, hired new staff and improved their internal processes. LSS hopes to convert to a new accounting software mid-summer 2006, pending funding for a replacement system.

MAITRI

Maitri was founded in 1987 as a residential hospice for people with AIDS. A state licensed 15-bed residence for low-income people with AIDS, Maitri provides a high level of medical supervision and support for people who are seriously ill/disabled. In collaboration with home health agencies and hospice organizations, Maitri provides skilled nursing and end-of-life care. Exempt from income taxes by IRS Code Section 501(c)(3), Maitri is governed by a 10-member Board of Directors. Maitri receives the majority of its funding from the federal government. Revenue is also received through foundation and corporate grants, donations from the general public, program service fees, and special events. In addition, Maitri receives rent from leasing a portion of its building to another nonprofit organization operating a thrift store.

Total Amount Received From the City in FY 2005-06: $1,161,871

Federal Funds Received From Public Health in FY 2005-06: $1,161,871

Current Single Audit Finding:

Finding 05-1: Operating & Replacement Reserve Withdrawals

Condition: Withdrawals of funds were made from reserve accounts without written approval. HUD loan provisions require that written approval be obtained for all withdrawals from reserve accounts.

Recommendation: Written approval should be obtained prior to withdrawing reserve account funds in the future.

Current Status: Management has implemented a policy to obtain prior written approval before withdrawing reserve account funds.

Current Management Letter Comments:

Comment 1: Cash Disbursements Procedures

Condition: Receipts were not included as back-up for payment of the credit card bill. Also, checks exceeding $10,000 only require a verbal approval from the Board Treasurer. Further, paid invoices are not properly cancelled.

Recommendation: Maitri needs to improve accountability for its receipts. The board should consider a dual signature requirement for disbursements over $10,000. Paid invoices should be stamped PAID to prevent inadvertent duplicate payment.

Current Status: The finance committee of the Board of Directors reviewed this item and agreed that there needs to be approval of all expenses over $10,000 by a Board officer. Each invoice is not reviewed and initialed by the Executive Director and stamped “posted” to avoid duplication.

MAITRI
(continued)

Comment 2: In-Kind Donations

Condition: There are no policies and procedures in place to assure that in-kind donations of goods and services are properly recorded. Services were recorded as income even though they do not meet the GAAP criteria, while others that should have been recorded were not. In addition, small amounts of cash donations were recorded as in-kind.

Recommendations: Management should become familiar with the criteria for recording in-kind revenue and establish procedures to assure that it is properly recorded.

Current Status: The finance committee of the Board of Supervisors reviewed this item and agreed that our subcontracted CPA should review our in-kind procedures and revenue on a regular basis.

Comment 3: Special Events

Condition: Event revenue per the financial statements is not reconciled to attendance statistics.

Recommendation: Event revenue should be reconciled to event statistics to ensure that revenue is properly recorded and that all revenue was indeed deposited.

Current Status: The finance committee of the Board of Supervisors reviewed this item and agreed to reconcile event revenue to event statistics.

Comment 4: Reconciliation of Donor Database

Condition: Donations per the donor database did not reconcile to those per the general ledger. As the general ledger does not include detail by donor, it is important that the donor database detail corroborate what is recorded in the general ledger.

Recommendation: The general ledger and donor database should be reconciled on a regular basis.

Current Status: The finance committee of the Board of Supervisors reviewed this item and agreed to reconcile the donor database to the general ledger.

Prior Management Letter Comments:

Prior Comment 1: Documentation of Accounting Procedures & Internal Controls

Condition: Maitri does not have an Accounting Policies & Procedures Manual. In the corporate world, there has been much recent emphasis on management's responsibility for fraud prevention and detection. A key element of this is to have a well thought out system of internal control as well as documented procedures.

MAITRI
(Continued)

Recommendation: Maitri should prepare an Accounting Policies & Procedures Manual. Management should consider the issues addressed in the sample document provided to Maitri and review and document internal controls and accounting procedures.

Current Status: Bookkeeping procedures have been documented; however, this document is not as comprehensive as an Accounting Policies and Procedures Manual. In addition, it does not appear to have been reviewed with regard to fraud prevention.

Prior Comment 2: Cash Receipts Procedures

Condition: Incoming checks are routed to the Director of Development who enters them to the donor database and forwards the checks to the Bookkeeper for deposit.

Recommendation: To improve internal control over cash receipts, the following is recommended.

1. The checks should be endorsed with a bank stamp by whomever opens the mail (this should not be the director of development); Two xerox copies of the checks being deposited should be made, with one dated and kept in the receiving employee's files, and the other copy being routed to the director of development.
2. The checks should then be forwarded to the bookkeeper for deposit.
3. A third party should periodically check the deposit per the books to the xeroxes maintained by the person who opens the mail. Any discrepancies should be promptly investigated and brought to the attention of the executive director.

Current Status: These recommendations have not yet been implemented.

Prior Comment 3: Accounting for Special Events

Condition: Income from special events is melded with donation income. In addition, event income and expenses were posted to a "pass through" account on the balance sheet, with income/expense netting out so that only the remaining credit remained on the books.

Recommendation: A separate income category should be established for special events to comply with IRS reporting requirements as well as improve the usefulness of financial statements. Balance sheet accounts should not be used to net out activity which should rightfully appear in the income statement.

Current Status: Although a new revenue account was established for special events, event income continues to be melded with sponsorship revenue in the donation account.

Prior Comment 5: Contract Requirement – Eligibility Income Limits

Condition: The income limit required by HOPWA is 50% of median income, which changes annually. The income limit had not been adjusted by Maitri in three years.

Recommendation: An adjustment for the income limit should be made annually.

MAITRI
(Continued)

Current Status: Since the auditor did not test HOPWA as a major program during this audit, no follow up on this issue occurred.

MISSION COUNCIL ON ALCOHOL ABUSE FOR THE SPANISH SPEAKING, INC.

The Mission Council on Alcohol Abuse for the Spanish Speaking, Inc. (Mission Council) is a tax-exempt Corporation organized under the laws of the State of California for the purpose of providing education, counseling and support for issues related to substance abuse and family violence.

Total Amount Received From the City in FY 2005-06: $864,618

Federal Funds Received From Public Health in FY 2005-06: $136,588

Single Audit Findings: None

Management Letter Comments:

Comment 1: Rent Disbursement

Condition: A review of the disbursement for July 2004 indicates that the rent disbursement was made twice for the same month. There is no evidence this overpayment was recovered or whether a credit was received from the landlord.

Recommendation: Mission Council should contact the landlord to clarify the overpayment for the rent in July 2004.

Current Status: Mission Council contacted the landlord and the landlord provided Mission Council with copies of all payments that showed that the additional payment was for prior year's rent.

Comment 2: Access to the Accounting System

Condition: The former CEO has access to the accounting system, as well as the overall computer system. He has online access at all times, and when trying to print a report, the output will end up at the former CEO's computer.

Recommendation: The former CEO should be prevented from accessing the accounting and overall computer system. Mission Council's data can easily be compromised, altered, or destroyed.

Current Status: At that time the CFO was working as a consultant. After his contract term expired, Mission Council disabled his access to their accounting system.

Comment 3: Computer Backup

Condition: A review of the computer backup indicates all backups are stored in the same place where Mission Council's computer is housed. In case of fire, or any other destruction, the backup data may be lost or destroyed along with the current information in the computer system.

Recommendation: All backups should be stored off-site. This can easily be achieved by physically taking the data off-site, or by exporting the backups to reputable company that specializes in disaster recovery.

Current Status: The Mission Council has backed up their system in mini storage outside of the premises.

Comment 4: Interest Income Accrual

Condition: Mission Council is allowed to recognize interest income on the rental deposit per the rental agreements. There is no evidence this interest income is being accrued.

Recommendation: The interest income on the rental deposit should be accrued and recognized monthly.

Current Status: Mission Council accrued their interest income per their auditor's recommendation.

Comment 5: Proposition 36 Revenue

Condition: Proposition 36 revenue had not been recognized for the month of June 2005.

Recommendation: The revenue from Proposition 36 sources should be recognized for June 2005.

Current Status: The Mission Council is recognizing all of their revenues for Proposition 36.

Comment 6: Accrued Expenses

Condition: A review of the accounts payable and accrued expenses disclosed some amounts are not being expensed or paid timely. Accrued funds from the last two fiscal years had not been spent.

Recommendation: Funds claimed from grantors should be spent timely. All funds claimed from grantors should be paid or encumbered as soon as practicable.

Current Status: Mission Council is spending the funds in a timely manner.

Comment 7: Fixed Assets Capitalization

Condition: It is the practice of Mission Council to capitalize purchases over $5,000. There is no evidence that a physical inventory of fixed assets has ever been taken. The financial statements do not show a balance for equipment and furniture.

Recommendation: A ledger should be established via a physical inventory of the fixed assets. The ledger should also be updated with future purchases and will serve to conduct inventories of future counts. This method will assist in determining accountability for all pieces of fixed assets.

Current Status: Mission Council did a physical inventory of their computers, and a ledger was established. Any purchase of equipment will be updated in the ledger account.

Comment 8: No Supporting Document

Condition: A review of disbursements indicated instances when the disbursement could not be supported by the original receipt.

Recommendation: The accounting department should verify that there is a receipt for all disbursements.

Current Status: Mission Council is verifying all of the original receipts for all the disbursements.

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MISSION NEIGHBORHOOD HEALTH CENTER

Mission Area Health Associates, Inc. (MAHA) is a California nonprofit corporation, doing business as Mission Neighborhood Health Center (Health Center). Its primary objective is to provide primary care and support services for medically underserved residents of the Mission District and surrounding neighborhoods. In October 1987, MAHA became a direct grantee of the Department of Health and Human Services. MAHA is also a recipient of various program grants from the Sate 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 2005-06: $2,325,203

Federal Funds Received From Public Health in FY 2005-06: $1,658,926

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 private 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 organizations 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; and, New Leaf Outreach to Elders.

Total Amount Received From the City in FY 2005-06: $1,858,292

Federal Funds Received From Public Health in FY 2005-06: $664,026

Single Audit Findings: None

Management Letter Comments: None

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PUBLIC HEALTH FOUNDATION ENTERPRISES, INC.
(dba PHFE Management Solutions)

Public Health Foundation Enterprises, Inc. (PHFE) is a California nonprofit corporation established on August 6, 1968. PHFE's purposes are: through research and demonstration to add to public health knowledge about the cause, prevention, cure of diseases, condition or states detrimental to the health of the public including, but not limited to, basic environmental, epidemiological, clinical, and administrative study, demonstration and research and its practical application thereto, to receive and administer funds for public health study, demonstration and research, all for the public welfare. Substantially all of PHFE's revenue is received from annually renewable governmental service contracts and private grantors and foundations located in California.

Total Amount Received From the City in FY 2005-06: $1,276,843

Federal Funds Received From Public Health in FY 2005-06: $776,797

Single Audit Findings: None

Management Letter Comments: None

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POSITIVE RESOURCE CENTER

The mission of Positive Resource Center (Positive Resource) is to assist people affected by or at risk for HIV/AIDS through culturally appropriate counseling, education, and advocacy in making informed choices which maximize available benefits and employment benefits. Positive Resource receives approximately 25 percent of its funding through grants originating with Federal agencies. Positive Resource operates the following programs:

- Benefits Counseling: Social security and employee benefits counseling services to people living with AIDS/HIV and/or mental health conditions
- Employment Services: Employment referral and support services for people living with AIDS/HIV.

Total Amount Received From the City in FY 2005-06: $1,072,183

Federal Funds Received From Public Health in FY 2005-06: $659,674

Single Audit Findings: None

Management Letter Comments:

Comment 1: Salary Allocations

Condition: Program costs are not allocated to funding sources based on units of service or another rational, defensible method.

Recommendation: To improve accuracy in reporting and identifying costs related to programs, program costs should be allocated to funding sources based on units of service or another rational, defensible method. General ledger "job" reports should be reconciled to cost reports on a monthly basis.

Current Status: Given the unique nature of the services that Positive Resource provides its clients and the fact that multiple sources often fund the same service, the task is not an easy one nor is it intuitively obvious how to proceed. As a first step in the process, the staff will develop a list of alternative strategies.

Comment 2: Computer Equipment

Condition: The general ledger is not updated to reflect computer equipment disposals.

Recommendation: Positive Resource should update its general ledger to reflect computer equipment disposals

Current Status: Staff has implemented a more rigorous system to track the use of, and disposal of, computer equipment so that equipment that is no longer in service is removed from the general ledger in a timelier manner.

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PROJECT OPEN HAND

Project Open Hand (POH) was established in October 1985 and incorporated November 1986 as a nonprofit public benefit corporation. POH provides home-delivered meals, groceries and nutrition counseling to people living with HIV/AIDS; congregate lunches and nutrition education to seniors; meal service for homebound and critically ill people under the age of 60. POH's services are conducted in San Francisco and Alameda counties and receive partial support from federal Ryan White CARE Act funds through the San Francisco and Alameda county public health departments. The senior lunch program is funded through San Francisco's Office on the Aging, the USDA, and senior contributions. POH is also funded through grants and donations from individuals, foundations and corporations.

Total Amount Received From the City in FY 2005-06: $2,702,912

Federal Funds Received From Public Health in FY 2005-06: $1,545,806

Single Audit Findings: None

Management Letter Comments: None

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RICHMOND AREA MULTI-SERVICES, INC.

Richmond Area Multi-Services, Inc. (RAMS) is a nonprofit organization incorporated in California. RAMS' mission is to provide community-based, culturally competent, and consumer-guided services that meet the mental health, social, and educational needs of the San Francisco community. RAMS' programs include: Adult Outpatient, Pre-vocational, Children and Youth Services; Broderick Street Residential Care; Bridge to Wellness; Vocational Training, Community Services; Senior Refugee Services; Asian Family Institute Fee for Services; Community Planning; and, Vocational Contracts and Café.

Total Amount Received From the City in FY 2005-06: $5,896,872

Federal Funds Received From Public Health in FY 2005-06: $11,076

Single Audit Findings: None

Current Management Letter Comments:

Comment 1: Accrued Vacation and Workers Compensation

Condition: The Fiscal Department has been keeping track of the accrued vacation using a spreadsheet. This process is time-consuming and error prone. Because of the staff turnover during the year, the new staff handling this spreadsheet was not familiar with the setup and made numerous mistakes that necessitated tedious correction by the Senior Accountant. Fiscal Department also uses a spreadsheet to allocate workers compensation monthly. This is quite time-consuming.

Recommendation: RAMS should ask the payroll service company and assess the feasibility of adding the vacation tracking and workers compensation allocation to the existing service package.

Current Status: The CFO will inquire with ADP payroll service to find out the estimated costs of adding the vacation tracking and workers compensation allocation to the existing service package. If such costs are reasonable and the ADP payroll service company can perform these tracking functions without too many manual "corrections" on our part, we anticipate that RAMS can begin utilizing these services by August 2006.

Comment 2: New Timesheet

Condition: RAMS implemented a new time sheet in August 2005, but it does not show the percentage allocation of time to programs.

Recommendation: To provide better support for charging the time to programs, RAMS should add to the timesheet the percentage (%) of allocation of the pay period and a statement to the effect that the employee is certifying the accuracy of the allocation onto the timesheet.

Current Status: Under the current system, the timesheet is prepared by the employee and signed off by the respective Program Director who has first-hand knowledge of the employee's activities at any given time. The employee would report the actual hours that he works for any given day on the timesheet. Upon hire, every employee reviews and signs off on the Personal Action Form (PAF). This document describes in detail the employee's job title, work activities by cost centers, and working hours. No changes to the job title, work activities by cost centers and working hours are permitted unless these changes have been documented and signed off in a new PAF by the employee, respective Program Director, Accounting Department and CEO. Any deviations from the above would be detected by either the Program Director and/or the Accounting Department through the current review process. However, in order to address the timesheet recommendation by the auditor, RAMS is investigating different timesheet methodologies currently in use by other nonprofit organizations. It is possible that RAMS might consider revising the timesheet so that it will be "individualized" for each employee by showing, on the timesheet, the percentage of allocation of the various cost centers in each pay period.

Comment 3: Café Phoenix Credit Card Sales

Condition: Credit sales are tracked on a daily basis by the administrative assistants at Café Phoenix; however, there is no reconciliation to the deposit on the bank statement.

Recommendation: RAMS should perform a timely reconciliation between the charges and the bank deposit to ensure that there are no lost sales.

Current Status: RAMS asked a qualified independent staff member who was not a member of the accounting department to review the Café Phoenix Credit Card Sales for two periods and these were the findings:

Review Period	Total Sales	Amount Not Posted	Not Reconciled/Lost Sales
07/01/04-12/31/04	$4,092.15	$6.85	0.17%
07/01/05-12/31/05	$7,368.50	$8.83	0.12%

RAMS has asked the CFO to designate the Senior Accountant as the overall reviewer and a staff member at Hire-Ability who is not involved with the Café operations to reconcile the actual receipts against the bank deposits as shown on the monthly bank statements. If discrepancies are found, a report will be generated and forwarded to the Director at Hire-Ability Vocational Services for follow-up.

Comment 4: Executive Compensation

Condition: The Nonprofit Integrity Act of 2004 requires the governing board or authorized board committee to review and approve the compensation of both the CEO and CFO to ensure that the payment is "just and reasonable". RAMS' board approved the CEO's salary but not the CFO's salary last year.

Recommendation: The board should document the data that it used, and the decision process that lead to the executive's salary as a precautionary measure.

Current Status: The Board is now in full compliance with the Nonprofit Integrity Act of 2004, which requires the Board to review and approve the compensation of both the CEO and CFO to ensure the payment is "just and reasonable". The Board has established formal procedures on "Executive Compensation" that can be used and followed by not only the current Board but also future Boards as well.

Prior Management Letter Comments:

Prior Comment 1: Asian Family Institute (AFI) Cash Receipts

Condition: The AFI receptionist is in charge of cash receipts and works alone in the reception area. Patients pay directly to the receptionist after their appointment. The current procedures require a pre-numbered receipt be issued for all cash receipts and that cash and checks be deposited into a lock box that requires two keys to open. The receptionist also accounts for use of the pre-numbered cash receipts. While these procedures provide tight control over the "back end" of the cash receipts transaction flow, they would not detect if, rather than issuing a cash receipt, the receptionist pocketed the cash from the patient.

Recommendation: RAMS should have some procedures in place that would enable reconciliation between appointments and cash receipts. For example, a daily appointment schedule with the clinician's sign-off can be kept securely away from the receptionist and could be used as the basis to verify the amount of receipts.

Current Status: During the fiscal year, there were discussions between Fiscal and the AFI director and some changes in procedures; however, the changes installed could not mitigate the weakness described above. Further discussion resulted in this solution: an appointment/sign up sheet will be used to track when clients are seen at the AFI program site. This appointment/sign up sheet will be used for both regular business hours appointments as well as after-hours appointments. The appointment/sign up sheet will show client activities for any given week. Each clinical staff/therapist will have his/her own appointment/sign up sheet, if she or he sees clients after hours. These sheets will show date, time, therapist's name, client's name or an identifier (according to confidentiality/privacy standards), and amount of cash/check payment. These sheets will be filed in a binder. The Director will review these sheets every week. The accounting department personnel will collect cash/check payment from the locked box at least once a week. The actual cash/check payment will need to agree with the total payments as shown on these sheets for the respective week. If the collections are different than the totals on these sheets, a report will be sent to the Director for immediate follow up.

Prior Comment 3: Personnel Action Form (PAF)

Condition: The PAF form requires three signatures: the employee, the program director, and the Chief Executive Officer. The auditors tested a sample of PAF forms for 20 employees and noted that most of them had only one or two signatures, but not all three. While there are some situations that do not require the employee's signature (for instance, PAF forms for a salary reduction that has been approved by the Board), generally, most salary adjustments require all three signatures.

Recommendation: Continuing effort should be made to ensure that all signatures are obtained in a timely manner.

Current Status: Current year testing indicated this situation has been greatly improved.

Comment 4: MIP Accounting System

Condition: In the past, because of the software program's system requirements, the fiscal department was not able to install the software updates. Because of the lengthy delay in updating the system, by the time the fiscal department upgraded its computer hardware, it had difficulties in updating the MIP accounting system. The fiscal department has not yet tested the database to ensure the transferring of the database to the new computer is successful. Fiscal is only using a single-user general ledger module of the MIP system.

Recommendation: When funding permits, RAMS should network the MIP system and also add the import/export and accounts payable modules.

Current Status: The single-user usage of the system is far from ideal; with additional modules and networking, there should be tremendous increase in operating efficiency in the Fiscal Department. The Board and the CEO have approved the purchase of the software and training of the staff back in March 2005. Due to staffing shortages, staff maternity leave, and staff departures in the accounting department, the upgrade has not happened as planned. Another important consideration was the tight cash flow at the time the Board and the CEO approved of the purchase of software and necessary training of the staff in the accounting department using the new system. RAMS cash flow has significantly improved; therefore it would be appropriate to invest in upgrading to the latest MIP software. The auditor recommended going from a single-user to multi-users usage to increase operational efficiency. The CFO and CEO will be working with the IT manager to see how this can be set up/achieved. The CFO in collaboration with the IT manager will inquire about the latest pricing for MIP Fund Accounting software and its compatibility with the server/network. As RAMS' fiscal year will close shortly, the main focus will be on closing of the books. RAMS anticipates that the MIP Accounting System upgrade (software and server/network) will be completed by December 2006.

Comment 5: Fiscal Department

Condition: RAMS's fiscal department is heavily reliant on one person – the Senior Accountant. RAMS does not cross-train its staff in the fiscal department.

Recommendation: Now that the fiscal condition of RAMS has been normalized and an accounts payable clerk has been added to the department, the department should maintain its effort in cross training staff in the department. Also, there should be more than one person able to run the general ledger system and to handle financial reporting.

Current Status: There has not been much improvement. The same reasons provided for the MIP Accounting System upgrade are applicable to the cross training of the staff in the Accounting Department. The CEO will work with the CFO to assure and promote cross training between all positions within the Accounting Office, such as Accounting Assistant (A/R & A/P), Payroll Specialist, Senior Accountant, and CFO. This will be a learn-as-you-go and hands-on process as everyone in the Accounting Office has his/her individual scope of responsibilities/functions. We anticipate the cross training with the Senior Accountant to be completed by December 2006.

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SAN FRANCISCO COMMUNITY CLINIC CONSORTIUM

San Francisco Community Clinic Consortium (Consortium) was incorporated in 1983 as a nonprofit public benefit corporation to develop and implement programs and to support policies that increase access to community-based primary care for the uninsured and underserved. The Consortium is an association of ten partner clinics that provide a variety of healthcare services to the low-income and minority communities of the City and County of San Francisco. In addition to healthcare, the Consortium's programs include training, consulting, research, and publishing in nonprofit health and welfare subjects. As part of its mission, Consortium provides the following services: Healthcare for the Homeless; Street Outreach Services; HIV/AIDS; Health Policy and Planning; Information Technology; Healthy Aging; Americorps/Health Corps, Cooperative Solutions; and Mental Health Services.

Total Amount Received From the City in FY 2005-06: $218,979

Federal Funds Received From Public Health in FY 2004-05: $218,835

Single Audit Findings:

Finding 05-1: Cash Management Payments

Condition: Award funds were drawn down beyond a reasonable time to expend such funds. Six disbursement checks to a clinic from April 30,2005, through June 30, 2005 in the total amount of $127,766 included in the federal drawdown requests were not released to the clinic until July 2005. The item is isolated in nature.

Recommendation: Federal drawdown requests should include only disbursements made or to be made within three days as allowed by federal laws and regulations.

Current Status: The Consortium has adjusted its policies so that it will only request drawdown funds for payments on invoices for sub-recipients that have completed and filed the proper paperwork. Payments to sub-recipients who have not filed the proper paperwork will not be processed until the paperwork is filed. This policy adjustment shall prevent the Consortium from drawing down funds inappropriately. Furthermore, the Consortium has enacted a process to void any check that has not been disbursed within three days of signature.

Finding 05-2: Cash Management Financial Management System

Condition: The financial management system used in the drawdown does not provide adequate identification of the HHS sponsored activities.

Recommendation: To ensure that federal drawdown requests include only federal sponsored activities, management should design a better financial disbursement report that can identify federal and non-federal activities.

Current Status: The Consortium's CFO and accountant are drafting a revised federal drawdown request form that lists only federal sponsored activities. The form will identify the

Consortium's share of the drawdown dollars and the portion that is due to the sub-recipients. The Consortium's CFO is also working closely with its sub-recipients to ensure timely submission of monthly invoices so that the federal drawdowns for the sub-recipients can occur uniformly from month to month.

Management Letter Comments: None

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, California providing non-perishable groceries, fresh produce, bread and meat to more than 400 nonprofit agencies, 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 it distributes these food commodities to qualifying public service agencies and neighborhood pantries.

Total Amount Received From the City in FY 2005-06: $627,272

Federal Funds Received From Public Health in FY 2005-06: $219,935

Current Single Audit Findings:

Finding 05-1: Emergency Food Assistance Program

Condition: The Food Bank did not conduct a site visit to an agency within the two-year period.

Recommendation: Monitoring of sub-recipients through site visits should be conducted within a two-year period as required by the State of California Department of Social Services.

Current Status: The Food Bank takes their commitment to monitor their agencies very seriously and closely tracks their site visits. The official biennial monitoring visit to this agency was conducted five months outside the two-year window due to scheduling problems. Best efforts are made to schedule site visits within the two-year requirement and the Food Bank does not anticipate any problems in the future.

Finding 05-2: Emergency Food Assistance Program

Condition: Submitted Household Participation ("HHP") Reports do not reflect the unduplicated number of households and persons participating in the program, instead they reported the aggregate number of households and persons served.

Recommendation: Control procedures should be put into place to ensure reported figures reflect unduplicated households and persons served.

Current Status: The Food Bank has already changed its report to ensure the household and persons served under the EFAP program are reported only once on the monthly HHP report for all agencies.

SAN FRANCISCO FOOD BANK
(Continued)

Finding 05-3: Emergency Food Assistance Program

Condition: Four exceptions out of the sixty samples of recipient agencies by the Food Bank had no signature on the receipt of food commodities.

Recommendation: The inventory manager should review the invoices or shipping documents for signature of sub-recipients as evidence of receipt for food commodities delivered.

Current Status: The Food Bank requires sub-recipients to complete client/recipient signature sheets to confirm receipt and distribution of products, as required by the USDA. It is also the Food Bank's policy that sub-recipient agencies sign for the food commodities that they receive as a second confirmation that the sub-recipient agency received the food. The Food Bank will continue to reinforce with its drivers that they must get a signature when commodities are delivered.

Management Letter Comments: None.

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, as well as special outreach programs for minorities, and the hearing impaired. SFSP's mission statement reads: "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 2005-06: $509,173

Federal Funds Received From Public Health in FY 2005-06: $241,252

Single Audit Finding: None

Management Letter Comments:

Comment 1: 2004 California Non-Profit Intergrity Act

Condition: The Act was passed by the California state legislature and was effective January 1, 2005. Summarized below are the provisons applicable to SFSP:

- Under the Act, the board or a committee of the board must review and approve as "just and reasonable" any compensation paid to the non-profit's Chief Executive Offier (Executive Director) and Chief Financial Offier (Business Manager). Compensation includes salary, benefits, and any other amounts paid to a CEO or CFO. Board approval must be obtained upon hiring the officer, whenever the term of employment is renewed of extended; and whenever the officer's compensatiion is modified.

- The Act imposes restrictions on fundraising activities of all charitiable nonprofits and commercial funraisers (and lawyers) whom they pay. Commercial fundraisers hired by a charitable nonprofit must notify the attorney general before starting to work on a solicitation compaign, and they must have written contracts with the charitable organizations for whom they're working. A charitable organization can cancel a contract with a fundraiser if the commercial fundraiser is not registered with the Attorney General's Registry of Charitable Trusts before the start of the soliciation campaign.

Recommendation: Documentation in written minutes of the Board or a committee meeting should contain:

- Required approvals of SFSP's CEO and CFO compensation and notes in the minutes should document the reasons for approval and the votes of each board or committee member; and
- Compliance with provisions of the Act applicable to fundrasing should have been met before a contract for fundraising is entered into.

SAN FRANCISCO SUICIDE PREVENTION
(Continued)

Current Status: The Board of Directors is aware of the recent California non-profit integrity statutes and has acquired literature and attended conference relative to them. The Board is in the process of undertaking a salary review in the coming year, having just completed one in the previous year. The results will be documented appropriately. The agency has not retained commissioned fundraisers in the past and will not retain them in the future.

Comment 2: Calculation of Accrued Vacation Claimed by Employees

Condition: Employees calculate their own accrued vacation on time sheets. The department manager verifies the correctness of the accrued vacation calculations. The auditors discovered that one employee had an incorrect accrued vacation balance. An adjustment was made to correct the financial statements.

Recommendation: The program manager should recalculate accred vacation balances each pay period.

Current Status: New timesheet review systems have been put into place to monitor accrued vacation for individual employees.

SHANTI

Shanti's programs specialize in providing services to low-income men and women in San Francisco who are medically underserved, lack proper insurance or housing, and have mental illness or chemical dependencies. Founded in 1974, Shanti is dedicated to closing the gap between those who receive comprehensive health care, and those who do not. Shanti fulfills its mission to provide services to approximately 3,700 individuals with HIV/AIDS and breast cancer by facilitating access to primary care-medical services, encouraging participation in treatment regimens, assisting with treatment adherence, and enhancing quality of life by providing individuals with the knowledge, tools, and resources they need to live longer, healthier, and happier lives. Shanti advances its vision of health enhancement by providing counseling, referrals, training, education, volunteers, practical assistance, and emotional support. Shanti also provides services and training to a diverse group of individuals and organizations though its five divisions: HIV/AIDS Services, Lifelines, The L.I.F.E. Program, Shanti National Training Institute, and Support to the HIV Planning Council/Community Service.

Total Amount Received From the City in FY 2005-06: $1,667,599

Federal Funds Received From Public Health in FY 2005-06: $1,667,599

Single Audit Findings:

Finding 05-1: HIV Emergency Relief Project Grants

Condition: Staff time reports do not accurately reflect hours worked by program.

Recommendation: Employees should allocate the program hours actually spend on timesheets.

Current Status: Time reports, reflecting hours spent by program are now being prepared. Employees have been advised that time reports, which accurately report time spent by program, must be prepared.

Finding 05-2: HHS/HRSA-CPEP

Condition: Staff time reports do not accurately reflect hours worked by program.

Recommendation: Employees should allocate the program hours actually spent on timesheets.

Current Status: Time reports, reflecting hours spent by program are now being prepared. Employees have been advised that time reports, which accurately report time spent by program, must be prepared.

SHANTI
(Continued)

Prior Single Audit Finding:

Finding 04-1: HIV Emergency Relief Project Grants:

Condition: Shanti's general ledger accounts did not support the amount billed. According to Shanti's interim controller, in the past, Shanti's general ledger system could not show costs incurred by program.

Recommendation: Shanti would take greater care in posting to its general ledger.

Current Status: Invoices were revised and resubmitted to reflect the correct salary expense for the position. Program expenses are now accurately reflected in the general ledger.

Management Letter Comment: None

SOUTH OF MARKET HEALTH CENTER

San Francisco Medical Center Outpatient Improvement Programs, dba South of Market Health Center (Center), operates a community outpatient health clinic, primarily funded through federal grants. The clinic provides a full range of outpatient and related services geared to lower income families from the San Francisco community. The Center is exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code, and Section 23701(d) of the California Revenue and Taxation Code.

Total Amount Received From the City in FY 2005-06: $17,548

Federal Funds Received From Public Health in FY 2005-06: $17,548

Single Audit Findings: None

Management Letter Comments: None

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SWORDS TO PLOWSHARES

Swords to Plowshares: A Veterans' Rights Organization (Swords) was incorporated on December 23, 1974 under the nonprofit corporation law of the State of California. Swords was founded to assist veterans, particularly Vietnam-era veterans, in their continuing transition to civilian roles: to develop and implement procedures including outreach for assisting veterans to take full advantage of existing and future opportunities to advance their educational backgrounds, job skill, employment opportunities; to obtain medical benefits; to provide a clearinghouse and referral service through which veterans may be informed of resources available to them from government, social service and veteran assistance agencies, and halfway houses.

Total Amount Received From the City in FY 2005-06: $985,254

Federal Funds Received From Public Health in FY 2005-06: $116,317

Single Audit Finding:

Finding 2005-1 All Major Programs

Condition: Employee timesheets do not contain a detail of time worked which allocates time between the government contracts and other funding sources. Only the employee's total time was recorded on the timesheets.

Recommendation: Employee timesheets need to be completed in such a manner that will allow the organization to allocate each employee's time to the contracts under which each employee has worked during the pay period.

Current Status: A procedure for employees to allocate their time on their timesheets, which will allow for all the employees who deal with multiple funding sources to fairly allocate their time, is being developed.

Current Year Management Letter Comment:

Comment 1: Employee Timesheets

Condition: Employee timesheets are not completed in a manner that allocate the employee's time based on the funding source for which the work was performed.

Recommendation: The employee timesheets should contain detail related to the funding source under which work was performed.

Current Status: On May 1, 2006, Swords to Plowshares implemented ADP's EZ-labor management system. This web-based system of electronic timesheets gathers time and effort allocation data from each employee. That data is certified by each employee's supervisor, a person with direct knowledge of that employee's work, and forwarded to our Payroll Department. Swords to Plowshares has also entered into an agreement with IDI to create integration between our EZ-labor system and our Quickbooks accounting system. This will create the direct allocation of salary costs for most employees.

For employees for whom allocating time hourly is either unduly complex or difficult to determine (such as group leaders whose groups are composed of clients funded under several different contracts), Swords to Plowshares use alternative methods. The two alternative methods Swords to Plowshares use are: effort allocation by client census and a "bubble up" allocation method for supervisors. The first method will be applied to those employees who work with groups of clients for whom the funding source is not yet known, difficult to determine, overlapping or disparate. For those employees Swords to Plowshares will use the employee's caseload to allocate salary cost based on effort.

For supervisors, Swords to Plowshares now allocate their salary costs based on the aggregate time and effort allocation of their direct reports. Similarly, for administrative personnel Swords to Plowshares now allocate salary costs based on the overall time and effort allocation for the agency.

Prior Year Management Letter Comments:

PY Comment 01-7: Indirect Cost Rate

Condition: Swords' indirect cost rate has not been updated with the oversight agency.

Recommendation: The indirect cost rate should be updated and submitted for approval with the oversight agency.

Current Status: This recommendation will not be implemented as the agency no longer uses an indirect cost rate.

TENDERLOIN AIDS RESOURCE CENTER

Tenderloin Aids Resource Center (TARC) is a non-profit social service and referral agency organized to meet the needs of the diverse and often ignored residents of San Francisco's Tenderloin neighborhood. The mission of TARC is to lessen the incidence of HIV infection, disease progression and homelessness through education, prevention, care, advocacy and referral. Following are programs and services provided by TARC: HIV Care Programs, HIV Prevention and Harm Reduction and Testing.

Total Amount Received From the City in FY 2005-06: $2,363,143

Federal Funds Received From Public Health in FY 2005-06: $1,825,982

Single Audit Findings: None

Current Management Letter Comments:

Comment 1: Monitoring of Grants and Temporarily Restricted Net Assets

Condition: A few cases were noted where restricted contributions were incorrectly recorded as unrestricted contributions. Further, restricted contributions were used to fund administrative salaries instead of program expenses related to medical and health related services.

Recommendation: The Finance Director should review all invoices for appropriate allocation to fund codes in accordance with their purpose and priority. Fund trial balances and temporarily restricted net assets should be reviewed on a monthly basis to ensure that any inconsistencies are identified and restricted immediately.

Current Status: Restricted contributions might have been recorded as unrestricted contribution due to the absence of a contribution letter or proper supporting document when the cash was received. To minimize the occurrence of the same mistake in the future, the accounting department will improve communication with the fundraising department to ensure that proper supporting documents are attached to the check receipt reports.

Management will review employees' job descriptions for those who perform multiple tasks, such as performing administrative work as well as health and health promotion work, and revise their job description to better reflect the nature of their work. The Finance Director will review all fund accounts including the temporarily restricted net assets accounts to ensure that the proper accounting entries are made on a monthly basis.

Comment 2: Monitoring of Funds Restricted for Specific Purpose

Condition: Funds received from donors restricted for specific purpose are commingled with operating cash and are not monitored to ensure that these are only being used for their specific purpose.

TENDERLOIN AIDS RESOURCE CENTER
(Continued)

Recommendation: TARC should monitor funds restricted for specific purpose by maintaining a separate account where all such funds can be deposited. Transfers to the operating account should be made only when costs are incurred to satisfy the purpose for each specific fund.

Current Status: The Finance Department will monitor the cash receipts for specific purpose by maintaining a separate account with the bank in the future.

Prior Management Letter Comments:

Comment 1: Grant Accounting:

Condition: Certain instances of discrepancies in the units of service information of different reports occurred as follows:

- The units of service (UOS) per the monthy productivity report did not agree with the invoice.
- The REGGIE report generated from the City's online system does not agree with the CRAM report. Further, the City makes certain adjustments to the invoices before making payments. This has caused a downward adjustment to the City's grant revenue by $30,000 in 2003. The source of the City's adjustment is not apparent from any correspondence from the City and TARC is not aware of its details.

Recommendation: A system should be implemented to verify that the various reports are consistent with each other and that they accurately reflect the UOS delivered during the reporting period. The finance department should consider using either the REGGIE report or the CRAM report for invoicing the City to make sure that the invoices are in line with the UOS details provided to the City. TARC should coordinate with the City to understand the source of any adjustments and reconcile them on a monthly basis.

Current Status: The City's Department of Public Health (department) requires that REGGIE reflect the actual activities of the agency at the time of invoicing, which TARC implemented as detailed in our response for our last audit. The department will only pay TARC for services they can reconcile on their end according to reports they generate from REGGIE, as well. Due to the late entry of client data as a result of staff absences, changes in personnel, etc., some billable units were not entered into REGGIE and were not reflected until the final reconciliation took place. Due to the cash flow constraints the need for timely billing remains an ongoing issue. TARC remains committed to increasing its reporting into REGGIE on a timelier basis as well as increasing its cash position so that it can allow a longer time between closing of each month's activities to allow for late entry of REGGIE data.

Comment 2: Personnel Records

Condition: Accrual of vacation hours did not conform to TARC's personnel policies in a few instances. In some cases, vacation used by employees is not supported by leave request forms.

Recommendation: Accrual of vacation hours should be monitored closely on a monthly basis to ensure that accruals are always made in accordance with the personnel policies. The leave request forms should be required for any vacation used, and the forms should be filed in the personnel records promptly.

Current Status: Due to the staff shortage in administration, TARC was unable to reconcile the PTO on a monthly basis as planned. Effective February 15, 2006, as a result of additional indirect resources from new grants, TARC was able to increase the bookkeeper's work hours. As a result, the monthly PTO reconciliation will occur as previously planned.

Comment 3: Payroll and Other Accounts

Condition: A manual payroll check issued to an employee was not entered in the Paychex System. Due to this, payroll tax and related forms were inaccurate and payroll tax deducted was not remitted. In addition, certain payroll accounts such as testing incentive and salary advance have outstanding balances from prior years.

Recommendation: Payroll accounts should be reconciled on a monthly basis and the payroll register should be reviewed more closely to ensure that errors are detected and rectified on a timely basis.

Current Status: During 2004, the auditors did not notice any inaccuracies in the payroll accounts based on the samples tested.

Comment 4: Program Expenses

Condition: The request for payments for the mental health and psychiatric services provided by Harm Reduction Therapy are not supported by spreadsheets, which detail the actual number of hours of service, performed under the contract. In some cases, the invoice rate did not match the rates specified in the contract.

Recommendation: Time sheets should be maintained to support the invoices and invoices should be reviewed for compliance with the term of the contract.

Current Status: A significant improvement in this area was made.

Comment 5: Fundraising Revenue

Condition: Food donations received for a fundraising event were not recognized in the financial statements as required by accounting standards. The fundraising department maintains complete documentation of all in-kind donations received with respect to fundraising events. However this information was not communicated to the finance department.

Recommendation: All information relating to fundraising transactions should be communicated to the finance department to ensure that donated goods are recorded in the financial statements at their estimated value.

Current Status: During 2004, the auditors did not note any non-cash donations not recognized in the financial statements.

Comment 6: Monitoring of Grants and Temporarily Restricted Net Assets

Condition: A few instances were noted where unrestricted net assets were used to fund program expenses for which designated restricted contributions were available. Also, restricted contributions from the current year were used when contributions for the same purpose were available from prior years. Further, some of the fund codes were allocated expenses in excess of the recorded contribution revenue. Finally, some portion of a grant was returned to the donor due to non-delivery of services within the grant period, due to lack of written communication with the donor on the terms of the contract.

Recommendation: The Finance Director should review all invoices for appropriate allocation to fund codes in accordance with their purpose and priority. Also, the fund trial balances and temporary net assets should be reviewed on a monthly basis to ensure that any inconsistencies are identified and rectified immediately. Fund balance details should be made available to the authorizing personnel on a regular basis. Finally, a written contract should be obtained for all grants clearly stating the terms and conditions to maximize the utilization of grants within the grant period.

Current Status: During 2004, a significant improvement in this area has been made. However, some occasions where funds codes were allocated expenses in excess of the recorded contribution revenue were noted. The fund trial balances and temporary net assets should be reviewed on a monthly basis. Management stated that each temporarily restricted or conditional contribution will be established or assigned an account or project number in the accounting system in order to account for the activities of each temporarily restricted contribution. The monthly reconciliation of temporarily restricted accounts will be performed to ensure that errors are detected and corrections are made in a timely fashion.

Comment 7: Vouchers/ Token Distribution

Condition: The current voucher distribution system does not have a process to verify that the physical number or vouchers on hand is correctly reflected in the voucher log.

Recommendation: A physical inventory should be implemented on a regular basis for better control over the vouchers.

Current Status: As previously reported, the tokens are kept in a secured place within the finance department. Due to the staff shortage in administration, management was unable to reconcile the vouchers and tokens on a monthly basis as planned. Effective February 15, 2006, as a result of additional indirect resource from new grants we have been able to increase our bookkeeper's work from part-time to full-time. As a result the voucher /token reconciliation will occur monthly as previously planned.

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THE SAN FRANCISCO AIDS FOUNDATION

The San Francisco AIDS Foundation (AIDS Foundation) was incorporated in California on March 15, 1984, as a nonprofit entity. The purpose of the AIDS Foundation is to end the pandemic and human suffering caused by HIV. The AIDS Foundation pursues its mission through the following programs: Client Advocacy and Treatment Education; Housing Services; Public Policy; Prevention and Community Level Interventions; and, Global Treatment Access.

Total Amount Received From the City in FY 2005-06: $5,492,037

Federal Funds Received From Public Health in FY 2005-06: $2,381,668

Single Audit Findings: None

Management Letter Comments*:* None

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

The San Francisco Particular Council of the Society of St. Vincent de Paul (Society) provides services to the poor and homeless, regardless of race, color, or creed through a complex of Special Programs and Person-to-Person services supplied by parish units, called Conferences. The Society currently provides a continuum of alcoholism and substance abuse services, a safe home for women victims of domestic violence and their children, a multi-service center for more than 300 homeless men and women, sober residence facilities for more than 150 people, and a direct social services desk that furnishes emergency food clothing and shelter to some 400 clients weekly The Society's principal sources of funding are contract service fees from governmental agencies and contributions.

Total Amount Received From the City in FY 2005-06: $1,906,354

Federal Funds Received From Public Health in FY 2005-06: $80,000

Single Audit Findings: None

Management Letter Comments:

Comment 1: Financial Reporting Function

Condition: In addition to maintaining the books and records of the Society the accounting department is also responsible for preparing those of the Arlington Hotel.

Recommendation: Under the direction of the Director of Finance, the Society should:

1. Develop a clear-cut plan for the accounting department that provides for the following:
    a) 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.
    b) Definite placement of responsibility and for lines of authority within the department.
    c) 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.
    d) Forms, documents, and procedures that provide for controls and proper approvals.
    e) Monitoring for compliance with policies, procedures, and budgets.
    f) Periodic review of the internal control system.
2. 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.
3. 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 the Executive Director and Treasurer, along with the monthly financial statements and budget to actual variance analysis.

4. 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.

Current Status: An assessment of the Finance Department was made in late February. With additional support from the director of finance, the needs of the Society could be met with a total of 3 FTE's. However, set policies, procedures, and training would be needed. In FY 2007, a set policies and procedures manual will be developed for each Finance function. The manual will also standardize all forms, documents, and procedures. During the development of the manual, internal controls will be reviewed to ensure proper segregation of duties. In FY 2007 a new G/L and A/P software package, Financial Edge, will be implemented. The new software will complement the development tracking software, Raiser's Edge. As part of the implementation, full training will be given to the Director of Finance. In turn, the Director will train the staff along with an online training tutorial. The new software along with the proper training will allow the software to be utilized to its fullest potential. Along with the G/L training, staff members will be attending a 3-day training session on how to utilize the development software to its fullest. Specifically, the topics covered will be database management, tracking donor information, merging mail lists, various monthly reports to be provided to the Board of Directors, etc. As part of the conversion to the new G/L and A/P conversion, vendors will be purged without recent activity as well as a full verification of new vendors.

Comment 2: Cash Receipts

Condition: The accounting assistant does not prepare a log of cash receipts when the mail is opened.

Recommendation: The Society should review its cash receipt procedures to insure segregation of the receipt, processing, recording, and reconciliation functions. Additionally, the Society should:

1. List and restrictively endorse its checks upon receipt; distribute copies of the check listing and copies of the checks if necessary to the persons responsible for maintaining the general ledger and accounts receivable detail, preparing the deposit slip and bank reconciliation. Copies of contributions and listing of the same can be provided to the Development personnel.

2. Deposit cash intact on a timely basis by a person who is independent of the receiving and general ledger functions; duplicate deposit slips should be prepared and a receipted copy received from the bank. Undeposited receipts should be maintained in a locked safe or file cabinet.
3. Compare the initial listing of cash receipts to the duplicate deposit slip and receipts summarized to post cash receipts to the general ledger. The posting should be done by someone who is independent of the receiving and cash processing functions.
4. Prepare a bank reconciliation by a person independent of cash receiving, processing and recording functions.

Current Status: Number 1 has been implemented; however the system needs to be perfected. A more timely and complete report will be generated and disbursed to the Executive Director as well as the Development Director. The Executive Director will also receive a list of the government monies received. Numbers 2, 3, and 4 have now been implemented.

Comment 3: Credit Cards and Employee Reimbursements

Condition: The auditors noted instances where charges were paid without sufficient supporting documentation to substantiate the expenses. The Society also does not have a formal credit card usage policy.

Recommendation: The Society should develop guidelines for what constitutes proper credit card usage (type and dollar limit on expenses). The guidelines should also include policies such as prohibited usage of credit card for any personal expenses and timely submission of supporting documentation, which includes the business purpose of the expense. Program directors should also be requested to closely review all expense reports for proper documentation before approval and the accounting department should reject reports not meeting the policy. The Executive Director's expense reports should be reviewed by the Treasurer on a quarterly basis.

Current Status: Program directors are reviewing reports and the accounting department is rejecting reports without proper documentation. However a formal policy including type and dollar limit expense is not in place. A policy will be put in place during FY 2007 as part of the standardized forms, documents, etc.

Comment 4: Cash Disbursements

Condition: The auditors noted instances where invoices and supporting documents were not consistently authorized for payment.

Recommendation: The Society should require that all vendor invoices and supporting documents be stamped during the disbursement process to indicate the approval and coding of the invoice as well as the date paid and check number. Each area should be initialed by the employee performing the applicable procedure as evidence that the procedure was performed. This will provide the check signer with documentary evidence that all of the control procedures have been performed and an indication of which employees performed the applicable procedures. While the auditors did not note any duplicate payments or tampered invoices, they also recommend that the invoices and supporting documents be canceled to prevent reuse, e.g., duplicate payments. Vendor statements should be reviewed against open invoices. Invoices from unfamiliar or unsual vendors should be authorized by someone independent of the invoice processing function. All checks should be mailed by someone other than someone who has the responsibility of either signing, recording, or authorizing disbursements.

Current Status: The invoices are processed after receiving proper authorization from the individual initiating the expense. This includes placing the G/L code on the invoice and indicating the date processed. A check is then generated and the director of finance reviews and initials the check and invoice to ensure each invoice includes the necessary authorization, the amount of the check reflects the invoice amount, the invoice was budgeted, and the checks are not being processed before it is due to maximize cash flow. After the executive director signs the checks, the invoice stub and check is mailed by the office manager. At the end of the month, an open invoice report is generated and reviewed.

Comment 5: Journal Entries

Condition: At month end, all journal entries are reviewed by the Director of Finance, however, there is no indication of this on the journal entry itself.

Recommendation: All non-recurring journal entries should be approved by an employee other than the one who prepared the entry, and such review should be indicated via initials and date of review of the journal entry.

Current Status: This recommendation has been implemented. The director of finance reviews and initials the approval of the entry.

Comment 6: Investments

Condition: The Society does not have a formal policy for withdrawal requests from their investment funds.

Recommendation: The Society should implement a formal withdrawal policy for the removal and transfer of investment funds that will include frequency of withdrawal and detail of employees authorized to initiate and approve withdrawal requests. 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 cash management policy should consider the cash flow of the Society throughout the year and provide guidance as to how the cash in excess of curren tneeds is invested on both 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: The recommendation has been partially implemented. All withdrawals are authorized by the director of finance. The executive director receives the withdrawal receipts as well as the monthly investment statement. Each receipt and statement contains the executive director's signature. An overview of the investment activity is also part of the board of director package. The investment policy of the Society is conservation of capital. Therefore, the investments are placed in commercial paper and money markets. A cash management policy identifying current and long term needs is being developed in FY 2007.

Comment 7: Fixed Assets

Condition: At present, no fixed asset capitalization policy exists.

Recommendation: The Society should establish a minimum dollar amount for capitalization of fixed assets.

Current Status: While no capital was purchased in FY 2006, the minimum dollar amount for the capitalization of fixed assets will be $1,000 moving forward.

Comment 8: Password Rotation

Condition: Passwords are never rotated on the Society's network. Employees often learn each other's passwords over time. Using someone else's password, a disgruntled employee could delete, alter, or damage critical data, or they could send out emails 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.

Recommendation: Automatic password rotation is designed into the Windows operating system, at the network access level, and can be activated by the network vendor at a user-specific rotation interval. The Society should ask their network vendor to configure automated password rotation services on their network.

Current Status: In July 2006, a new server and other equipment were purchased. As part of the implementation, new passwords were generated. When the G/L and A/P software is implemented, new passwords will be implemented as well as creating various levels of access. As part of the internal control review during the implementation of the accounting manual, the network vendor will configure automated password rotation.

Comment 9: Payroll Reconciliation

Condition: A journal entry was necessary to accurately reflect payroll expenses.

ST. VINCENT DE PAUL SOCIETY
(continued)

Recommendation: On a quarterly basis, the payroll expense accounts should be reviewed and reconciled to the 941 tax returns, and the annual reconciliation should be prepared concisely and in a timely manner with detailed explanations of all significant variances.

Current Status: This recommendation has not been implemented, but will be in FY 2007.

Comment 10: Arlington Hotel

Condition: Arlington is not keeping current on the amounts it owes the Society for managing and operating the facility and is generally behind in payments. The Society is essentially providing to the Arlington the funds necessary to maintain its operations.

Recommendation: The Society should continue to consider the following:

1. Analyze the costs involved with performing the management functions on the Arlington's behalf to determine reasonable compensation for these services.
2. Maintain completely separate books and records from those of the Arlington. All direct costs and expenses related to the operations of the Arlington, such as payroll, maintenance, etc. should be paid directly from Arlington cash accounts. The Society should limit amounts paid on behalf of the Arlington, and to the extent possible, the billing and payment of the monthly management fee should represent the majority of the ongoing transactions between the two organizations. Consideration should be given to having the Arlington's books and records maintained outside of the Society's accounting office, due to the limited size of the Society's accounting department.
3. Access whether the Arlington is capturing the entire contract and grant revenue available from grantors for the services which it provides to its residents.
4. Develop with the Arlington a repayment plan which will bring the Arlington to a current status with the Society.
5. Assess whether it makes sense for the Society to continue to be involved in providing direct management services to the Arlington, perhaps limiting the services provided to those of a social services nature.

Current Status: The costs involving the management of the Arlington have been reviewed. However the State authority must approve the increase of the management. As part of the budget submission to the State, the increase will be included. On a monthly basis, the Arlington is invoiced for any expenses paid by the Society. These expenses include payroll, payroll taxes, insurance, and the management fee. All other A/P invoices are paid directly by the Arlington. The Arlington is then required by immediately reimburse the Society. Should the Society be involved with the Arlington after the syndication in January 2008, all records would be kept separately from the Society. Due to the Arlington not being up to code with its sprinkler work, contract/grant revenue has not been available. In the fall of 2007, the work will be completed and contract/grant revenue will be received. Additional grant revenue will be sought to provide additional services to the tenants. The operating cash flow along with contributions from the limited partnership only allows for current operating expenses to be covered. The syndication of the Arlington provides the opportunity to reimburse the Society. As part of the syndication, the Society's role is being reviewed.

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

The City and County of San Francisco's Department of Public Health provides pass through federal funding to a number of University of California, San Francisco (UCSF) programs and clinics, such as the AIDS Health Project, CAPS, Chronic Care HIV/AIDS Multi-Disciplinary Program, Pediatric AIDS Program, Women's Center of Excellence, Positive Health Practice, Women's Specialty Clinic, and Women's Specialty Program. The following single audit findings reflect findings for the University of California (University) as a whole.

Total Amount Received From the City in FY 2005-06: $13,445,822

Federal Funds Received From Public Health in FY 2005-06: $8,396,092

Single Audit Findings:

Finding 05-1: Untimely Cost Transfers

Condition: At one campus, in six instances of ten transfers sampled, transfers were completed more thatn 120 days after the original date of the transaction. The auditors could not determine the date of discovery of the error. Five of the six transfers were credit entries to the affected awards. At one campus, in one instance of six transfers sampled, the transfer was 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: While the auditors could not determine if any of the transfers were untimely as defined by the NIH and NSF, the University should enhance its focus on achieving timely cost transfers to ensure compliance with the agency guidelines.

Current Status: It is the policy and practice of the University to process transfer of costs on a timely basis. It is also the policy of the University to minimize the need for transfers. The University continues in its efforts to ensure compliance with these policies.

Finding 05-2: Incomplete Physical Inventory

Condition: At one campus, the auditors noted that while the physical inventory was undersay, a full inventory of equipment had not been completed in accordance with the compliance requirements of OMB Circular A-110.

Recommendation: The University should ensure that the current physical inventory is completed as soon as possible.

Current Status: The campus has been working to implement a new asset management system. The new system will facilitate the completion of the current physical inventory; the system and the inventory are scheduled for completion shortly. The new system will enable the campus to ensure future compliance with the biannual inventory requirement.

Finding 05-3: Lack of Subrecipient Monitoring

Condition: At one campus, campus management initiated discussions with the auditors and it was agreed that adequate procedures were not in place to ensure that subrecipients have met their audit requirements.

Recommendation: The campus should review the federal requirements and established University policy to ensure the federal requirements are met and adhered to.

Current Status*:* The campus will take steps to ensure that subrecipients have met their audit requirements as required by OMB Circular A-133 and in accordance with established University policy and procedures.

The University utilizes Affiliated Computer Services, Inc. Education Services (ACS) as its institutional servicer to perform the Student Loan Billing and Due Diligence in Collection compliance requirements related to the Perkins Loan program. The ACS Audits of Federal Student Financial Assistance Programs Report for the year ended June 30, 2005 includes a finding together with management's response related to the timing of certain due diligence procedures by ACS on behalf of ACS customers.

Management Letter Comments:

Comment 1: Periodic Review of User Access (University-wide)

Condition: During the IT reviews at a number of campuses and medical centers, the auditors noted user access to applications and systems is not reviewed as frequently and thoroughly as expected to ensure access is commensurate with existing roles and responsibilities.

Recommendation: IT and business management should perform a periodic review of application users to ensure that access is commensurate with current roles and responsibilities. User access accounts found to be inappropriate should be evaluated by IT management for unauthorized activity. Documentation evidencing the assessment and the evaluation of access identified as inappropriate should be retained.

Current Status: The University will review its policy and guidelines regarding appropriate systems access controls and where necessary will reinforce and expand requirements throughout the University. Working with the UC-wide Information Technology Leadership Council, the University will identify additional requirements and review options for increased effectiveness of systems access controls and implement any needed policy revisions by March 1, 2006.

Comment 2: Programmer Access to Production (Medical Center)

Condition: At one medical center, the auditors noted during testing that one developer has update access to the production environment of a financial system. Developer access to the production environment increases the risk that unauthorized program changes may be implemented.

Recommendation: Management at this medical center should remove this access or implement a monitoring control to detect unauthorized activity. The monitoring control should be evidenced.

Current Status: Due to the nature of change implementation and testing, developers are required to have access to the production environment. However, the University agrees that controls can be strengthened. A management review procedure is being developed to formally document management review of production activity by the development staff.

Comment 3: Improve Subrecipient Monitoring (Campus)

Condition: During the subcertification procedures that support the management representations at one campus, it was noted that for fiscal year 2005, the campus did not have adequate procedures in place in order to ensure compliance with the federal requirements regarding subrecipient monitoring. If federal funds are involved, the federal government requires the pass-through entity to take an active role in monitoring the subrecipients of federal research. Our understanding is that this monitoring did not occur in fiscal year 2005 due to certain staff vacancies.

Recommendation: The campus should review the federal requirements and work to ensure the federal requirements are met and adhered to so as to not be in violation of federal compliance requirements.

Current Status: The University will take steps to ensure that monitoring of subrecipients are conducted in compliance with the requirements of OMB Circular A-133 and in accordance with established University policy and procedures as described in the University's Contract and Grants Guidance Memorandum Number 02-03.

Comment 4: Prepare Reconciliations in a Timely Manner (Campus)

Condition: At one campus account reconciliations for cash, the student billing system and pledge accounts were not prepared or reviewed on a timely basis. This appears to be a result of certain staffing limitations.

Recommendation: All accounts should be reconciled and reviewed on a monthly basis as part of the campus' routine closing schedule. The focus of this procedure should be to verify amounts have been completed and accurately reflected in the financial statements, to reassess the collectibility and appropriateness of older balances, to reassess estimates and assumptions used in recording certain balances, and to identify and resolve account discrepancies. Supervisory review should be evidenced by initialing and dating each reconciliation, including notations regarding disposition of significant items.

Current Status: Management at this campus will reinforce the requirement to keep reconciliations current with those who are responsible for each account. In addition, general accounting will initial and date each reconciliation as well as notate significant items if follow up is necessary.

Comment 5: Monitor Compliance with NCAA Agreed Upon Procedures Requirements

Condition: NCAA guidance places different requirements on schools depending on division status; as division status can change, compliance with the requirement to have an independent auditor perform agreed upon procedures annually or at least every three years, can be difficult to monitor. In addition, there will likely be a greater need to oversee comments this year with the expansion of the required procedures.

Recommendation: The University should consider implementing a system to ensure that individual campuses annually review their NCAA status to stay in compliance with the appropriate requirements for their divisions. In addition, the Office of the President should be provided with copies of each NCAA agreed upon procedure report and monitor the disposition of findings, much like it is done for the annual management letters.

Current Status: The University agrees and each campus will add a requirement to the fiscal closing calendar to review their status for the appropriate NCAA compliance requirements. In addition, the status of any findings by the independent auditor associated with NCAA agreed upon procedures will be monitored in conjunction with the work performed on the status of annual management letter findings.

Prior Year Management Letter Comments:

PY Comment: Improve Controls Over Use of Spreadsheets (Campus)

This is a prior year comment where the status of implementation is still in progress.

PY Comment: Improve User Access Administration (Campuses and Medical Centers)

This is a prior year comment where the status of implementation is still in progress.

UNIVERSITY OF THE PACIFIC – SCHOOL OF DENTISTRY

The University of the Pacific, Arthur A. Dugoni School of Dentistry, (UOP) located in the Pacific Heights area of San Francisco, has served the Bay Area community for over 109 years. The school was founded in 1896 as the College of Physicians and Surgeons with programs in dentistry, medicine and pharmacy. In 1918, the college focused its education program solely on dentistry but retained its name as the College of Physicians and Surgeons until 1962 when the dental college was incorporated into the University of the Pacific. The School of Dentistry's distinct mission is to educate competent beginning dentists in a humanistric environment. The entire school community, from students to administrators, embraces the humanistic philosophy that respects the dignity of each individual and fosters limitless potential for growth.

Total Amount Received From the City in FY 2005-06: $464,717

Federal Funds Received From Public Health in FY 2005-06: $464,717

Single Audit Findings:

Finding 05-1: Monthly Bank Reconciliations

Condition: There was one bank account in a population of ten bank accounts where the bank reconcilation had not been reconciled adequately or effectively for several months.

Recommendation: Procedures should be implemented to ensure that all bank accounts are being reconciled monthly.

Current Status: UOP recognizes and understands the serious risks surrounding inaccurate bank reconciliations and the control over cash that a properly reconciled bank statement provides. All bank accounts will be reconciled monthly by the appropriate campus. The UOP's Controller's Office will review the monthly reconciliations and establish request explanations for unreconciled items.

Finding 05-2: Student Status Changes

Condition: There were eight instances in a selection of fifteen student status changes where the information reported to the NSLDS was either not reported timely or was not reported accurately.

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.

Current Status: Dental School Campus: The single student not submitted in a timely fashion appears to be an isolated event. Alter review, we have been unable to find an explanation for the late reporting. Auditors will review the situation from an extraction program error standpoint.

Finding 05-3: Student Title IV Withdrawals

Condition: There were five instances in a selection of five returns of Title IV withdrawals, where the Title IV funds were returned to the Department of Education's programs 30 days after the date the UOP determined the student withdrew.

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 of Education programs.

Current Status: Current processing procedures for calculation of Title IV refunds involve multiple offices and are currently dependent upon a sequential forwarding of a paper notification of withdrawal to the appropriate offices. This is causing significant delays in completing final transaction processing.

In the short term, the process will be supplemented by implementing a daily e-mail response from the Office of Academic Support Services (where all student withdrawal processes begin) to the designated staff membrs in the Offices of Student Accounts, Financial Aid, and Registrar, indicating any student withdrawals which have occurred on that day. In addition, a weekly summary will be fowarded to the same offices indicating all withdrawals for the week. These changes should provide an ongoing tracking mechanism that is not dependent on the receipt of the paper withdrawal notification and should ensure that the calculation and return of Title IV funds within the 30-day period occurs as specified in regulation. In addition, the institution will explore the feasibility of implementing the BANNER administrative software feature which provides a more automated procedure for recalculation and return of Title IV funds to further faciliatate the process.

Finding 05-4: Return of 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 policies that unofficial withdrawals due to students failing to earn a passing grade are monitored and considered for return of Title IV funds calculations.

Current Status: UOP will implement immediately the full review of all students who fail to earn a passing grade in at least one course offered. A new program has been written to extract these student records for review. The report will be executed after each term upon notification from the Office of the Registrar that grades have been officially posted. The Office of Academic Support Services will follow up with faculty, staff, and other appropriate parties on any students from the report extraction whose attendance beyond the 60% point in the semester is unable to be documented in the initial review. Upon completion of the secondary review, return of Title IV calculations will be performed for any student that is determined to have unofficially withdrawn.

UNIVERSITY OF THE PACIFIC - SCHOOL OF DENTISTRY
(continued)

Management Letter Comments:

Note: Although management is addressing the issues raised in its 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. is a tax-exempt corporation that provides psychological and sociological aid to the general public, primarily relating to drug and substance abuse rehabilitation and HIV prevention. With a network of treatment facilities,halfway homes and administrative offices, Walden House conducts its programs primarily in the San Francisco Bay Area and Los Angeles County. Walden House is engaged in the following programs: Adult Residential Program; Adult Outpatient and Day Treatment Program; Criminal Justice Treatment Program; Adolescent Program; Adult HIV/Mental Health Program, and Vocational Services. Walden House is funded from the public and private sectors, including grants and contributions from U.S. governmental organizations, corporations, foundations, and individuals. In 2004, approximately 97 percent of Walden House's support was provided by grants from U.S. govenmental organizations.

Total Amount Received From the City in FY 2005-06: $8,601,714

Federal Funds Received From Public Health in FY 2005-06: $5,661,480

Single Audit Findings: None

Management Letter Comments: None

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WESTSIDE COMMUNITY MENTAL HEALTH CENTER, INC.

Westside Community Mental Health Center, 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 2005-06: $10,556,040

Federal Funds Received From Public Health in FY 2005-06: $2,437,448

Single Audit Findings: None

Management Letter Comments: None

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the scope section of this report.

Staff: Elisa Sullivan, Audit Manager
Houman Boussina
Yan Liu
Edvida Moore

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

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Report: Department of Public Health: Monitoring of A-133 Single Audit Reports for Agencies Awarded Federal Funds by the Department in Fiscal Year 2005-06

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