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 2004-05

FINANCIAL AUDITS DIVISION

May 15, 2006
05061

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

May 15, 2006 Audit Number 05061

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 Financial Audits Division 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 58 nonprofit organizations for which we reviewed single audit reports, 17 had single audit findings and 28 had management letter comments. Fourteen of these organizations had both single audit findings and management letter comments. Five organizations have not provided to us a response or action plan to clear these findings either because they did not respond to our requests or their independent auditors follow up on the findings during the following annual audit.

The Controller's Financial Audits Division 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 financial audits division (Controller) assumed the monitoring and follow-up function for federal funds awarded by the department in fiscal year 2004-05. 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 spreadsheet of all nonprofit organizations to which the department had passed through federal funds in fiscal year 2004-05. 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 has issued 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, 2004; however, we also reviewed single audits from organizations using the calendar year end of December 31, 2004, or 2003, when the more current single audit had not been provided.

MONITORING RESULTS

We reviewed single audit reports from a total of 58 nonprofit organizations, and found that 17 single audit reports contained findings and recommendations. All recommendations either have been or are currently being addressed by the organizations. Of the 58 nonprofit organizations, 28 of them had management letter comments. Fourteen of the organizations had both single audit findings and management letter comments. The following five organizations have not provided to us a response or action plan to clear these findings either because they did not respond to our requests or their independent auditors follow up on the findings during the following annual audit: Catholic Healthcare West, Haight Ashbury Free Clinics, Maitri, St. Vincent de Paul Society, and Young Men's Christian Association of San Francisco.

Shanti's independent auditor's report for June 30, 2004 included a statement that Shanti has suffered recurring net deficiencies in net assets that raise substantial doubt about its ability to continue as a going concern. The financial statement footnotes include management's plan in regard to this statement. 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 on the five organizations that did not provide a response or action plan to us and ensure that the organizations have addressed their single audit or 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	$1,126,875	$813,811		X	X	
Ark of Refuge, Inc.	1,640,563	602,603		X		X
Asian & Pacific Islander Wellness Center	990,903	666,424		X		X
Asian American Recovery Services, Inc	6,608,625	719,355		X		X
Baker Places, Inc.	14,294,653	2,679,196	X		X	
Bayview Hunters Point Foundation	5,466,636	163,403		X		X
Black Coalition on AIDS	850,137	499,291		X		X
Boys & Girls Clubs of San Francisco	1,850,338	17,495		X	X	
California AIDS Intervention Training Center	710,544	552,677	X			X
California Family Health Council, Inc.	13,661	12,378	X			X
Catholic Charities CYO	6,125,644	1,283,701	X		X	
Catholic Healthcare West **	1,161,326	443,991	X		X	
Center for Human Development	129,947	129,947		X	X	
Centerforce, Inc.	342,357	176,991	X		X	
Community Awareness and Treatment Services	4,709,723	435,953	X		X	
Compasspoint Nonprofit Services	294,531	118,579		X		X
Conard House, Inc.	6,777,556	65,000	X		X	
Continuum HIV Day Services	1,128,508	781,610	X		X	
County of Marin AIDS Office	1,045,981	1,045,981		X	X	
County of San Mateo	2,226,607	2,226,607	X		X	
Dolores Street Community Services, Inc.	880,130	244,900	X		X	
Episcopal Community Services of San Francisco	8,513,599	126,823		X	X	
Family Service Agency of San Francisco	6,133,619	285,353		X	X	
Family Support Services of the Bay Area	1,378,364	32,070		X		X
Friendship House Association of American Indians	440,469	377,231	X		X	
Glide Foundation	1,311,357	285,404		X	X	
Haight Ashbury Free Clinic, Inc. **	9,856,941	1,154,641	X		X	
Health Initiatives for Youth	85,711	85,711		X		X
Horizons Unlimited	1,721,970	192,872		X		X
Instituto Familiar de la Raza, Inc.	4,963,927	671,713		X		X

Summary Table of Nonprofit Organizations Reviewed (continued

Organization	Total City Funds Awarded	Federal Funds Awarded *via* DPH	Single Audit Findings		Management Letter Comments	
			Yes	No	Yes	No
Iris Center: Women's Counseling & Recovery	1,102,857	275,095		X		X
Japanese Community Youth Council	4,772,797	32,147	X		X	
Jewish Family and Children's Services	1,080,411	20,000		X		X
Larkin Street Youth Services	3,088,904	670,934		X		X
Latino Commission	913,671	221,280		X		X
Lutheran Social Services of Northern California	1,034,046	693,815		X		X
Lyon-Martin Women's Health Services	428,893	321,808		X		X
Maitri **	1,368,744	1,368,744		X	X	
Mission Housing Development Corporation	561,756			X	X	
Mission Neighborhood Health Center	1,964,704	691,502		X		X
Mount St. Joseph-St. Elizabeth	926,505	156,479		X		X
New Leaf Services for Our Community	1,649,586	237,807		X		X
North of Market Senior Services	1,076,145	22,917		X		X
PHFE Management Solutions	1,054,449	1,054,449		X	X	
Project Open Hand	2,257,739	805,301		X		X
Richmond Area Multi-Services, Inc.	5,420,684	87,097		X	X	
St. Vincent de Paul Society **	1,970,057	376,288		X	X	
San Francisco AIDS Foundation	4,936,451	2,613,085		X		X
San Francisco Community Clinic Consortium	319,201	199,028		X		X
San Francisco Food Bank	650,012	92,800	X		X	
Shanti	1,024,211	517,775	X			X
South of Market Health Center	254,216	185,684		X		X
Swords to Plowshares	937,107	101,091	X		X	
University of the Pacific – School of Dentistry	588,855	523,215		X	X	
Urban Indian Health Board	4,644	4,644		X		X
Walden House, Inc.	9,724,204	1,912,273		X		X
Westside Community Mental Health Center	10,613,166	444,662		X		X
Young Men's Christian Association of San Francisco **	3,771,788	254,854		X	X	

***** Current status of single audit finding or management letter comments not available.***

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 2004-05: $1,126,875

Federal Funds Received From Public Health in FY 2004-05: $ 813,811

Single Audit Findings: None

Management Letter Comments:

Comment 1: Client Grants

Condition: AIDS Fund erroneously billed two grants for reimbursement against the CARE contract. However, these grants were replaced by other, qualified grants.

Recommendation: Management should institute additional reconciliation procedures to ensure that erroneous billing does not occur.

Current Status: According to management, on a monthly basis, grants are now reconciled in two separate ways: accounting records are reconciled against the Client Services Database, and then against the department's REGGIE system, to ensure that billings against the CARE contract are accurate. Also, the AIDS Fund's CARE contract now stipulates each unduplicated client is now comprised of two $250 Units of Service to prevent billing for full reimbursement for partial grants against the CARE contract.

Comment 2: Signature Approval

Condition: AIDS Fund did not consistently provide a second signature approval in its client files.

Recommendation: A second person should consistently approve all client grant applications.

Current Status: According to management, the executive director has been trained on intake and review procedures and is now available for signature in the absence of the client services manager or controller.

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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 2004-05: $1,640,563

Federal Funds Received From Public Health in FY 2004-05: $ 602,603

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. Its programs include Care Services, Community Services, Prevention Services, Research and Technical Assistance, and HIV Testing and Training. The Wellness Center receives most of its revenue from government grants and contracts.

Total Amount Received From the City in FY 2004-05: $990,903

Federal Funds Received From Public Health in FY 2004-05: $666,424

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 2004-05: $6,608,625

Federal Funds Received From Public Health in FY 2004-05: $ 719,355

Single Audit Findings: None

Management Letter Comments: None

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BAKER PLACES, INC.

Baker Places, Inc. (Baker Places) provides residential and community based services to the people of San Francisco as an alternative to institutional care. Currently the organization provides care to the homeless, psychiatrically disabled, people with AIDS or HIV related conditions, and people with substance abuse disorders. Baker Places earns a significant portion of its revenue from City and County of San Francisco and Federal grants.

Total Amount Received From the City in FY 2004-05: $14,294,653

Federal Funds Received From Public Health in FY 2004-05: $ 2,679,196

Single Audit Findings:

Finding 04-1: General Ledger

Condition: Internal controls are not operating as designed to ensure accurate and timely recording of financial transactions to the general ledger. The CPAs noted numerous inaccuracies within the general ledger that required correction. The inaccuracies resulted, primarily, from lack of supervision and timely review by management knowledgeable of generally accepted accounting principles.

Recommendation: Management should continue its efforts to ensure proper staffing of the finance/accounting department occurs, and that personnel knowledgeable of generally accepted accounting principles review and approve entries made to the general ledger.

Current Status: A Director of Finance and an Accounting Manager have been hired to supervise staff and monitor internal controls. According to management, both of these individuals have a strong knowledge of generally accepted accounting principles. Internal controls have been re-established and implementation is going forward and being monitored. Lastly, inaccuracies are either being avoided or are being corrected when they occur.

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: Management indicates that it now maintains, monitors, and reconciles all subsidiary ledgers. The accounting software package is currently being upgraded. When complete, this upgrade will enable both account receivable and payable subsidiary ledgers to be working properly as linkages to the general ledger. Further, staff will be given training on the proper operation of the system.

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: Management indicates that cash and investment accounts are now being reconciled to the general ledger on a monthly basis.

Management Letter Comments:

Comment 1: Authorized Pay Rates

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: Management has instituted improved oversight procedures to ensure that all information documentation are organized and properly filed, and that personnel files are complete.

Comment 2: Reporting of Payroll

Condition: In 10 percent of the test data, payroll register amounts were incorrectly recorded in the general ledger.

Recommendation: Management should review and approve payroll journal entries prior to staff recording payroll into the general ledger.

Current Status: The Accounting Manager now reviews and approves all payroll journal entries before they are entered into the general ledger.

Comment 3: Payroll Procedures and Accounting Procedures

Condition: Tests of controls over payroll indicated that employees' time cards are not always kept as a permanent record. In four of the 40 sample payroll records tested, employee timesheets had been destroyed. Time cards are an important record to the operation of an internal payroll function.

Recommendation: Management should develop an accounting policies and procedures manual, so that new payroll clerks have a clear understanding of their duties.

Current Status: Management has implemented procedures to ensure that employee timesheets are retained and accurately filed, and that the files are correctly labeled. The Accounting Policies and Procedures Manual is in the process of being updated; in the meantime, payroll personnel are being given clear instruction in their duties.

Comment 4: Disbursement Procedures and Accounting Procedures

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: The Accounting Policies and Procedures Manual is in the process of being updated.

Prior Year Management Letter Comment:

PY Comment 1: Adjusting Journal Entries

Condition: During the 2004 audit, the auditors observed that $800,000 of accounts receivable were improperly classified as deferred revenue. In some instances, interest on notes payable was not properly accrued; in certain cases, depreciation was not expensed for assets acquired and placed in service during 2003.

Recommendation: Baker Places should record adjusting entries, as required, to correct the misstatements.

Current Status: As a result of the 2003 audit, Baker Places recorded adjusting journal entries to correct these misstatements and has hired a new chief financial officer and new accounting 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 2004-05: $5,466,636

Federal Funds Received From Public Health in FY 2004-05: $ 163,403

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 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 2004-05: $850,137

Federal Funds Received From Public Health in FY 2004-05: $499,291

Single Audit Findings: None

Management Letter Comments: None

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BOYS & GIRLS CLUBS OF SAN FRANCISCO

Boys & Girls Clubs of San Francisco (the Club) was created in 2001 from a merger of two prominent clubs, namely the San Francisco Boys and Girls Club and Columbia Park Boys and Girls Club. The Club is a not-for-profit organization, which provides youth guidance and is dedicated to the mental, moral, and physical development of boys and girls between the ages of 6 and 18 years. The Club offers physical, recreational, vocational, educational, fine arts, and computer services to all members, with club locations throughout San Francisco and a summer camp in Mendocino County. The Board of Governors serves as an oversight and policy making body for the Club.

Total Amount Received From the City in FY 2004-05: $1,850,338

Federal Funds Received From Public Health in FY 2004-05: $ 17,495

Single Audit Findings: None

Management Letter Comments:

Comment 1: Improving Closing Procedures

Condition: The Club continues to record the majority of promises to give at year-end. This system is not adequate for tracking promises to give to the Club. In addition, internal statements of activities and budgets prepared by the Club do not include "non-cash" items such as depreciation.

Recommendation: Promises to give should be recorded as the Club is notified. This procedure will be beneficial to prevent or detect errors or fraud surrounding promises to give and contributions. The detail aging of promises to give should be reconciled on a monthly basis to the general ledger and any reconciling items should be investigated and cleared promptly. Management should review the reconciliation to ensure accuracy and inclusion of all known promises to the Club. This process will also help management monitor the collections of promises to give.

In addition, the internally prepared statement of activities and budget should be prepared on the accrual basis of accounting to increase the accuracy of the financial reporting and to reduce any significant variances from the year ended audited financial statements.

Current Status: The Finance Department will be proactive in communicating with the Development Department to ensure that both departments are recording promises to give at the time the promise is made. The accounting staff will reconcile the detail aging of promises to give with the general ledger on a monthly basis. The management team will review the reconciliation to ensure the accuracy and inclusion of all known promises to the Club. Management will review the recommendation to prepare the budget and statement of activities on the accrual basis.

Comment 2: Cash Disbursements Testing

Condition: During the cash disbursements testing, one invoice did not have the required signatures of approval and two checks over $10,000 lacked two signatures as required by the Club's policy.

Recommendation: Care should be taken to ensure that all invoices are properly stamped with an appropriate approval stamp, and the Club should adhere to its check signing policy.

Current Status: The Finance Department staff will follow procedures to ensure that requests for checks and invoices have the proper signatures needed for approval and that all checks that are over $10,000 have a second signature per agency policy.

Comment 3: Improving Accounting for Accounts Payable

Condition: With regard to closing procedures, during the search for unrecorded liabilities, one check in the amount of $9,388 was improperly included in accounts payable and five checks totaling $59,398 were improperly excluded from accounts payable.

Recommendation: Invoices received after year-end should be carefully examined to assess whether they are for goods purchased or services provided during the prior fiscal year. In addition, the accounts payable aging report should be reviewed to ensure that all invoices included are actually for expenses incurred during the fiscal year.

Current Status: Management agrees with the recommendation as stated above. The Finance Department staff will follow procedures that ensure that all invoices are reviewed to assess which fiscal year they belong in so they can be properly recorded.

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.

Total Amount Received From the City in FY 2004-05: $710,544

Federal Funds Received From Public Health in FY 2004-05: $552,677

Single Audit Findings:

Finding 04-1: Time Reports

Condition: Staff time reports do not accurately reflect hours worked by program. This was also a prior single audit finding.

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

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, have to be prepared.

Finding 04-2: General Ledger

Condition: General ledger accounts did not support the billing amount. This was also a prior single audit finding.

Recommendation: Greater care should be taken in posting to the Training Center's general ledger.

Current Status: Direct expenses and shared costs are charged and allocated to each project in the general ledger. Program expenses are now accurately reflected in the general ledger.

Finding 04-3: Indirect Costs

Condition: Indirect costs and fringe benefits were sometimes based on estimates or one-twelfth of contract amount.

Recommendation: Management should adopt the use of cost centers. Also, policies and procedures should be established to enable preparation of timely and accurate billings based upon actual costs, in order to be in compliance with contract requirements.

Current Status: Changes are being made in the billing to be based on actual cost.

CALIFORNIA AIDS INTERVENTION TRAINING CENTER
(continued)

Finding 04-4: Supporting Documentation

Condition: Some supporting documents were missing from travel and supplies advance payments.

Recommendation: Management should establish policies that require third party documentation for all amounts being paid to vendors, including advance payments.

Current Status: Management now retains adequate receipts and documentation for all travel and advance disbursement.

Finding 04-5: Credit Card Charges

Condition: Some employees' credit card charges did not have adequate supporting documents.

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

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

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 2004-05: $13,661

Federal Funds Received From Public Health in FY 2004-05: $12,378

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: Management concurred with this finding and will implement policies and procedures as outlined in the auditors' recommendation. Management plans to implement corrective action during the current fiscal year.

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.

CALIFORNIA FAMILY HEALTH COUNCIL, INC.
(continued)

Current Status: Management concurred with the auditors' recommendation. Management has developed a grant tracking system that will monitor when all external progress reports and invoices are due to funding agencies, and a tickler system that will send out 30-day advance notices, via e-mails, based on due dates of reports. The system was scheduled for implementation on September 1, 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 aware ness of suffering through advocacy for changing unjust social conditions.

Total Amount Received From the City in FY 2004-05: $6,125,644

Federal Funds Received From Public Health in FY 2004-05: $1,283,701

Prior Year Single Audit Findings:

Finding 03-01: Fixed Assets

Condition: Catholic Charities did not maintain a property management system as required and they last performed a full fixed asset physical count in 1997. While the organization did inventory all federal assets purchased, there remained an increased risk that:

- Fixed assets may not be properly recorded.
- Fixed asset register may list assets no longer in service.
  Fixed assets purchased with federal funds may be employed in non-federal programs.
- Catholic Charities may not be in compliance with federal contracts.

In addition, absent the completion of a physical inventory, it is not possible to determine the extent of any potential questioned costs.

Recommendation: Catholic Charities should formalize a policy whereby all federal assets purchased are immediately tagged and entered into the fixed asset register so they can be properly accounted for and depreciated. In addition, Catholic Charities should track and periodically review all fixed assets purchased with federal money to ensure compliance with the federal regulations. Lastly, Catholic Charities should perform biennial physical counts of its federally funded fixed assets.

Current Status: During the 2003-04 fiscal year, the organization performed a full physical inventory. There is also now a policy in place to tag and inventory all assets that are purchased with federal funds.

Finding 03-02: Procurement Policies

Condition: Catholic Charities did not maintain written procurement policies that outline the federal regulations contained in OMB Circular A-110 relative to award restrictions, flow-through provisions, cost/price analysis, etc.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO (continued)

Recommendation: Catholic Charities should develop written procurement policies and practices consistent with the provision of OMB Circular A-110.

Current Status: In March 2004, Catholic Charities updated its policies and procedures to include procurement policies in accordance with OMB Circular A-110.

Management Letter Comments:

Comment 1: Lack of Review of Investment Account Reconciliations

Condition: Accounting personnel who have the requisite experience prepare monthly reconciliations for each investment account. However, the reconciliations are not reviewed.

Recommendation: Reconciliations should be reviewed and signed off by the reviewer on a timely basis.

Current Status: The accounting manager and the revenue and contracts manager performed the investment reconcilations. From this point forward, the general ledger staff accountants will perform the reconciliations and the managers will review and perform the sign-off.

Comment 2: Inappropriate Segregation of Duties over Payroll

Condition: Payroll personnel can make changes to the payroll data master file and have the ability to add or delete employees and potentially create fictitious employees. The same individuals have custody of payroll checks.

Recommendation: Management should perform a final review of all changes made to the employee master file. Also, payroll personnel should not have edit access to the master file and also retain custody of payroll checks.

Current Status: Management will review and perform the sign-off for all payroll adjustments to the master file. Additionally, management will contact our payroll processor to remove the ability of the payroll personnel to add or delete employees and potentially create fictitious employees.

Comment 3: Lack of Monitoring over Construction in Progress

Condition: No control procedures are in place to ensure that the accounting department receives notification when a project included in Construction in Progress (CIP) is completed. If the accounting department does not record completed projects on a timely basis, depreciation may not be properly stated.

Recommendation: Catholic Charities should maintain a separate CIP account on which no depreciation is charged. Procedures should also be set up to ensure that the accounting department receives timely notification of projects so that they close out the CIP project, transfer the project to the appropriate fixed asset category and start depreciation.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO (continued)

Current Status: Management facilities will maintain a separate CIP account on which no depreciation is charged. When facilities receives the certificate of occupancy, they will establish a procedure to notify accounting to close out the project and start depreciating a fixed asset.

Comment 4: Lack of Proper Approval of Excused Absences

Condition: Catholic Charities did not obtain the proper signatures of approval for one claimed excused absence of 14 sampled from either the parent or authorized representative as prescribed by the California Department of Education compliance requirements.

Recommendation: Monthly sign-in sheets should be monitored and reviewed on a monthly basis to ensure that all excused absences have the required support and approval. Any absences not properly supported should be identified and appropriately claimed on the summary of attendance.

Current Status: An internal audit procedure has been implemented by the contracts manager during the first quarter of fiscal year 2004 to ensure compliance with the regulations of the State of California.

Comment 5: Payroll Reconciliations Not Being Performed

Condition: Several journal entries were recorded to adjust the amount recorded on the general ledger. However no reconciliation was performed between the payroll register and the general ledger. Employee salary records may not be properly updated.

Recommendation: Reconciliations reconciling the payroll expense per the payroll register to the expense recorded in the general ledger should be prepared. The reconciliation should be reviewed on a timely basis and the reviewer should sign off on the reconciliation.

Current Status: Payroll reconciliations are being performed. Management reconciles the general ledger to the 941. Management will modify the general ledger exception entry process to ensure that the payroll register in the general ledger matches the payroll expense in the payroll register.

Comment 6: Lack of Review Over Auxiliary Account Balances

Condition: A bequest received by Catholic Charities is currently held in the name of the Auxiliary Women of San Mateo (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: The finance committee of the board of directors will discuss the access issue related to these funds.

Comment 7: Lack of Proper Approval on Sign-In/Sign-Out Sheets

Condition: Catholic Charities did not obtain proper signatures from a parent or other authorized adults on four sign-in/sign-out sheets from 14 sampled as prescribed by the California Department of Education compliance requirements.

Recommendation: Catholic Charities should review sign-in/sign-out sheets when they are completed to ensure that proper signature is obtained from each parent signing their child in or out of the program.

Current Status: An internal audit procedure has been implemented by the contracts manager during the first quarter of fiscal year 2004 to ensure compliance with the regulations of the State of California.

CATHOLIC HEALTHCARE WEST

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 2004-05: $1,161,326

Federal Funds Received From Public Health in FY 2004-05: $ 443,991

Single Audit Finding:

Finding 04-1 HIV/AIDS Early Intervention Program

Condition: Requests for reimbursement of various employee salaries are based upon agreed upon budget rather than on actual time spent on the program.

Recommendation: CHW should implement procedures whereby employees not working 100 percent of their time on a specific program should keep track of actual hours spent on individual programs and such time should be charged to the respective contracts accordingly. CHW may also consider alternative methods, such as a historical time analysis, which would require employees to periodically track time spent on various contracts and in turn use this to support the allocation of employee salaries.

Current Status: Not available.

Management Letter Comments:

Note: Management has advised us that its management letter comments refer to its operations at St. Mary Medical Center in Long Beach and not St. Mary's Medical Center in San Francisco, and therefore we have not listed them here.

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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. 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 2004-05: $129,947

Federal Funds Received From Public Health in FY 2004-05: $129,947

Single Audit Findings: None

Management Letter Comments:

Comment 1: Procurement Policy

Condition: CHD has no written procurement policy for subcontractors in place.

Recommendation: CHD should adopt a written procurement policy.

Current Status: CHD will develop a written procurement policy that ensures efforts to utilize small businesses, minority-owned firms, and women's business enterprises. Other considerations in evaluating partners for proposals will include relevant experience, availability of staff with professional qualifications and technical abilities, and price.

Comment 2: San Francisco Contract

Condition: Sign-in sheets for Education/Alternatives activities had incomplete information.

Recommendation: Sign-in sheets should contain expanded information such as: activities completed at meetings, staff in attendance, and title of meeting. Also, CHD should develop procedures to document contacts for community-based activities.

Current Status: The sign-in sheets have been modified to include the name of the group, date, site location, content, and the name and signature of the facilitator.

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CENTERFORCE, INC.

Founded in 1975, Centerforce, Inc. (Centerforce) is a nonprofit agency established to provide services to prisoners and their families. Centerforce's mission is to strengthen individuals and families affected by incarceration through a comprehensive system of education and support. Exempt from income taxes by IRS code section 501(c)(3), Centerforce is governed by a nine member Board of Directors. Programs conducted during the year include Transitional Services, Prisoner Services, Children and Family Services, and Information Services. Centerforce receives funding for its programs through grants and contracts, mostly from the federal government passed though various local agencies. In addition, Centerforce receives donations from the general public and generates program income for educational forums that it conducts.

Total Amount Received From the City in FY 2004-05: $342,357

Federal Funds Received From Public Health in FY 2004-05: $176,991

Single Audit Findings:

Finding 04-1: Salaries by Title

Condition: Salaries by title per the general ledger did not tie to salaries by title per the Controller's grant billing spreadsheet.

Recommendation: That posting of salaries to the general ledger properly reflects the job functions being performed by employees, providing a proper audit trail for funding source billings.

Current Status: Centerforce has modified its record keeping to comply with this audit finding.

Prior Year Single Audit Findings:

Finding 03-1 Credit Card Usage

Condition: Credit card usage was excessive and occurred for purchases that could have been made using proper procurement procedures. Credit cards were issued to several employees, and the number was given to a non-card-holder to purchase items on-line. Employees using the credit cards did not provide the charge receipts to the accounting department in a timely manner, resulting in difficulties reconciling the charge statements and paying the bill.

Recommendation: Management should determine which employees absolutely need credit cards. Also, credit card purchases should be limited to only those which are necessary and all possible expenditures should be made by check. Further, credit card users should be required to submit receipts in a timely manner so that management can review all receipts. Lastly, credit card numbers should not be given to non-card-holders.

Current Status: This recommendation has been implemented.

Finding 03-2: Documentation for Travel & Meeting Expenses

Condition: Documentation for travel & meeting expenses did not consistently include original documentation as well as information as to purpose.

Recommendation: Documentation should include original travel receipts such as airline boarding passes, tickets, and original hotel bills. In addition the business purpose of the trip or meeting must be documented. This should be done using externally generated materials (brochure, conference descriptions, etc.) whenever possible. When not possible, information as to who was involved and the business purpose of the travel/meeting should be documented by the employee incurring the expense. Management should review the purpose of the travel in advance and assure that it is in accordance with grant and organzational objectives.

Current Status: The audit report indicated this recommendation has been implemented.

Finding 03-3: Questioned Costs Regarding Good & Services Not Received

Condition: The June 2003 grant billing included items, which were not expenses of the Centerforce as of that date. Specifically, it included client incentive supplies, which were not ordered and received until July, as well as services which were to be performed in the future. These items were also inappropriately included in accounts payable at June 30, 2003.

Recommendation: Grant billings should be prepared using financial statements propared by the accounting department in accordance with GAAP.

Current Status: The audit report indicated that this recommendation has been implemented. In addition, the questioned costs resulting from the prior year condition were returned to the funding source.

Finding 03-4: Questioned Costs Regarding Cell Phone Charges

Condition: Cell phone charges for 14 employees were $25,152 for the 2002/03 fiscal year. Bills for a single phone exceeded $800 in some months. In the auditor's opinion, this amount is excessive.

Recommendation: Cell phone accounts should be monitored monthly and managed on a pro-active basis. Employees requiring significant usage should be put on unlimited plans.

Current Status: The Administrative Manager reviews cell phone invoices on a monthly basis and staff are informed about the limitations of the plans. Despite this improvement, Centerforce's CPAs noted continued high cell phone invoices through June 2004.

CENTERFORCE
(continued)

Finding 03-5: Bloodborne Pathogen Exposure Control (BPEC) Plan

Condition: Centerforce did not have a written BPEC plan.

Recommendation: Centerforce should establish a plan in accordance with grant requirements.

Current Status: Centerforce has established such a plan.

Finding 03-6: Quality Assurance Plan

Condtion: Centerforce did not have a Quality Assurance Plan, and did not perform regular reviews of employees.

Recommendation: Centerforce should establish a Quality Assurance Plan in accordance with grant requirements.

Current Status: As of June 30, 2004, Centerforce had not yet established a Quality Assurance Plan. However, personnel policies are being updated and management expects to finalize them during fiscal year 2004-05. Employees are now being reviewed on a regular basis. The executive director was not evaluated during the fiscal year, but is scheduled for review in November, 2004.

Finding 03-7: Funding Source Notification of Equipment Purchases

Condition: Centerforce did not notify the City of San Francisco when it expended grant funds to purchase equipment.

Recommendation: Centerforce should notify the City & County of San Francisco, in writing, of equipment purchased with grant funds.

Current Status: Centerforce has begun notifying the City and County of San Francisco, in writing, of equipment purchased with grant funds.

Finding 03-8: Audit Deadline

Condition*:* The audit was not completed by the funding source deadline, 180 days after fiscal year end.

Recommendation: Centerforce's books should be closed and prepared for audit on a more timely basis, with the objective of completion prior to the funding source deadline.

Current Status: The current year audit was completed by the required deadline.

CENTERFORCE
(continued)

Prior Year Management Letter Comments:

PY Comment 1: Documentation of Accounting Procedures & Internal Controls

Condition: Centerforce does not have an Accounting Policies and Procedures Manual.

Recommendation: Centerforce should compile an Accounting Polices and Procedures Manual.

Current Status: This recommendation has not yet been implemented.

PY Comment 2: Fixed Asset Inventory

Condition: Centerforce did not perform a physical inventory and did not reconcile the inventory to the fixed assets schedule on an annual basis.

Recommendation: Centerforce should perform a physical inventory and reconcile it to the fixed assets schedule to assure that all fixed asets are on-site and accounted for, and that additions and disposals have been properly recorded.

Current Status: This recommendation has not yet been implemented.

PY Comment 3: Compliance with Grant Contract Provisions

Condition: Centerforce was not in compliance with some of its contract provisions.

Recommendation: Management should review all current contracts, prepare an abstract of all funding source requirements, and assure that all employees are aware of, and complying with, these requirements.

Current Status: There were significant improvements in contract compliance in the current year audit.

PY Comment 4: Functional Expenses

Condition: The chart of accounts has not been set up to track grants, and does not use the department feature to track functional expenses, which is required in order to prepare the Statement of Functional Expenses.

Recommendation: Centerforce should expand its chart of accounts to include a second set of departments for functions as well as the existing department structure for grants.

Current Status: Although the recommendation was not implemented during this audit period, management did implement a software conversion effective July 1, 2004 which includes functional tracking.

CENTERFORCE
(continued)

PY Comment 5: Policy for Travel Expenses

Condition*:* In addition to the single audit finding, the auditor also noted weak internal controls over travel expenses.

Recommendation: Centerforce should tighten its internal controls over travel expenses.

Current Status: Centerforce has implemented procedures that significantly improve internal controls over travel expenses.

PY Comment 6: Cash Receipts Procedures

Condition*:* No one agrees the cash receipts prelisting to the actual deposits.

Recommendation: Centerforce should have someone agree the cash receipts listing to the actual deposits and report discrepancies to the executive director who should promptly investigate the discrepancies.

Current Status: The finance manager currently performing this task is not independent of the cash receipts process and therefore, this recommendation has not been implemented.

PY Comment 7: Funds Restricted for Visitor Center Purposes

Condition*:* Approximately $21,000 remained on the books, unspent for visitor center related activities, as of June 30, 2003.

Recommendation: Centerforce should either contact the funder to see if the purpose of the funds can be changed to an activity currently conducted by the agency or return these funds to the donor.

Current Status: Management has made significant progress in resolving these restricted funds. At June 30, 2004, $3,000 remains on the books for visitor center.

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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

Total Amount Received From the City in FY 2004-05: $4,709,723

Federal Funds Received From Public Health in FY 2004-05: $ 435,953

Current Single Audit Findings: None

Prior Year Single Audit Finding:

Finding 03-1: Loan Agreements

Conditions: The loan agreements for the Eddy and Howard Street Projects with the City & County of San Francisco (City) require CATS to make periodic deposits into the Replacement and Operating Reserve account. CATS is required to deposit 2 percent (for Eddy) and 2.5 percent (for Howard) of the Project's income into the respective Replacement Reserve accounts. Withdrawals from the Replacement Reserve accounts are intended for capital improvements to the projects. CATS is also required to deposit 3 percent of each Project's Income into the respective Operating Reserve accounts to maintain a balance equal to three months of all Project operating expenses.

No Operating or Replacement Reserve deposits were made during fiscal year 2003. In addition, approximately $91,762, representing prior year deposits, was transferred out of the reserve account into the general account and used for operations.

Recommendation: CATS should make the required deposits timely, or request a waiver from the City.

Current Status: CATS obtained a waiver from the City Mayor's Office of Housing regarding the requirement to fund the Eddy Street operations and reserve accounts for the year 2004. The waiver must be granted annually. According to CATS' director of finance, CATS did not obtain a waiver for the Howard Street Project (Howard) because CATS expected to begin making the required deposits into Howard's Replacement Reserve Account, and Operating

Reserve Account. CATS has deposited $3,000 and $2,000, respectively, into the two accounts, and projects that by the end of calendar year 2005, it will have deposited a total of $25,000 (or 50 percent of the intended goal).

Management Letter Comment:

Comment 1: Fixed Asset Subsidiary Ledger

Condition: CATS does not reconcile its fixed asset subsidiary ledger.

Recommendation: CATS should update its fixed asset subsidiary ledger as part of the monthly accounting "close" process. CATS proposed a quarterly reconciliation, instead.

Current Status*:* The director stated that CATS does not have sufficient activity in its fixed asset account to warrant the amount of time needed to reconcile its fixed asset account so frequently. He also said that, because of its cash flow problems during the past twelve months, CATS has only spent about $2,500 on the purchase of fixed assets. Finally, the director said that the fixed asset account would be reconciled as part of CATS' closing procedures for the fiscal year ended June 30, 2005.

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 2004-05: $294,531

Federal Funds Received From Public Health in FY 2004-05: $118,579

Single Audit Findings: None

Management Letter Comments: None

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CONARD HOUSE INC. AND RELATED ORGANIZATIONS

Conard House, Inc. and related organizations (collectively, Conard) are nonprofit organizations incorporated in California. Conard provides supportive services to economically, socially or otherwise disadvantaged psychiatrically disabled adults. The services include supported housing, counseling, social rehabilitation, case management, money management, and vocational training. Conard receives a majority of its funding from the City and County of San Francisco through the Department of Public Health-Community Behavioral Health Services division and the Department of Human Services.

Total Amount Received From the City in FY 2004-05: $6,777,556

Federal Funds Received From Public Health in FY 2004-05: $ 65,000

Current Single Audit Findings: None

Prior Year Single Audit Finding:

Finding 03-1: Payroll Disbursement Internal Control Weakness

Condition: During the period from December 2000 to December 2002, a former employee of Conard converted funds totaling approximately $27,000 for her personal use. All the conversion schemes originated from the payroll account.

Corrective Action: Conard engaged an independent CPA firm to review its payroll processing procedures in February 2003, and has implemented many of the recommended procedures in the CPA's report to strengthen Conard House's control over payroll transactions.

Management Letter Comments

Comment 1: Significant Audit Adjustments

Condition: It was necessary for the auditors to propose significant year-end adjusting entries. When significant adjustments are necessary, not only are the year-end numbers inaccurate, the monthly financial statements may also be inaccurate.

Recommendation: The accounting department should post all necessary transactions and journal entries so year-end adjustments are not necessary.

Current Status: Debt forgiveness will be booked annually. Capital work in progress journal entries will be booked monthly beginning with March 2005 monthly reports.

Comment 2: Internal Payroll Controls

Condition: Some employees listed as terminated in the payroll system still received payments after their termination date because the termination dates were incorrectly entered. Further, some I-9 forms, background checks and employment authorization memos could not be located during payroll testing and some I-9 forms were not properly signed. Also the payroll accountant distributes payroll checks to various departments.

Recommendation: Management should periodically review termination dates in the payroll system, ensure that all I-9 forms are obtained and properly completed, and ensure that someone other than the payroll accountant distributes the payroll checks.

Current Status: Conard has added a rehire procedure to clear the termination date in the payroll system. Also, management has scheduled additional clerical staff to update the payroll filing system and verify that all active employees have I-9 forms. Payroll distribution will be reassigned to the accounts payable accountant.

Comment 3: Fiscal Intermediary Unit

Condition: There is a risk of irregularities at the case manager level due to a missing control in the FIU system.

Recommendation: Management should perform periodic internal audits of FIU transactions and procedures as a deterrent to potential fraud.

Current Status: The director of finance will develop an internal test to be completed quarterly by outside temporary accounting staff.

Comment 4: Tenant Security Deposit

Condition: Monthly rent rolls prepared by property management do not show security balance for each tenant.

Recommendation: Conard should include tenant security deposit balances in the monthly rent roll.

Current Status: Management will implement this recommendation pending assignment of staff resources.

Comment 5: Midori-Department of Building Inspection(DBI)

Condition: Conard did not correct a notice of violation within 60 days as required due to lack of funding.

Recommendation: Midori should obtain a written memo from DBI approving the delay of corrective work.

Current Status: The director of real estate will follow up on the implementation of this recommendation.

CONARD HOUSE
(continued)

Comment 6: Accounting Manual

Condition: Conard does not have a written accounting procedures manual.

Recommendation: Prepare a written accounting procedures manual, assemble the reference materials currently used into a single document, or at least prepare broad outlines of function and procedures in one formal document.

Current Status: Conard will work with accounting managers to begin an outline. They expect to have the outline in place by May 15 with greater depth and detail to be developed through the end of August.

Comment 7: Fundraising Expenses

Condition: Exempt organizations must report fundraising expenses on Form 990. Although Conard did not have any fundraising expenses in the current year, it should be aware of this new requirement.

Recommendation: Management should review its fundraising and joint costs and report them according to the requirements.

Current Status: Conard agreed with the management comment.

Comment 8: California Nonprofit Integrity Act (SB 1262)

Condition: The California Nonprofit Integrity Act (Act) is effective January 1, 2005. There are many provisions that may affect Conard, one being that Conard should form an audit committee.

Recommendation: Conard should comply with the new Act.

Current Status: Conard agrees and has recently formed an audit committee.

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CONTINUUM HIV DAY SERVICES

For the past 13 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 2004-05: $1,128,508

Federal Funds Received From Public Health in FY 2004-05: $ 781,610

Current Single Audit Findings: None

Prior Year Single Audit Findings:

Finding 03-1: Cash Disbursements

Condition: Expenses incurred in one accounting period were posted to the general ledger in a preceding accounting period after that period was closed.

Recommendation: Procedures should be implemented to prevent posting general ledger data to a prior accounting period.

Current Status: Continuum has reviewed and revised, as necessary, financial procedures to ensure that expenses are posted into the correct accounting period.

Finding 03-2: Ryan White Title 1

Condition: As discussed at Finding 03-1, expenses incurred in one accounting period were posted to the general ledger in a preceding accounting period after that period was closed. As a result, financial statement data may not have indicated a true reflection of Continuum's expenses.

Recommendation: Procedures should be implemented to prevent posting general ledger data to a prior accounting period.

CONTINUUM HIV DAY SERVICES
(continued)

Current Status: Continuum has reviewed and revised, as necessary, financial procedures to ensure that expenses are posted into the correct accounting period.

Finding 03-3 Ryan White Title 1

Condition: A sample of cash disbursement transactions indicated that certain travel costs related to a conference were charged to this grant that are considered unallowed according to the terms of the contract.

Recommendation: Continuum should implement additional review procedures to ensure that only allowable costs are charged to the grants.

Current Status: Continuum conducted training for management staff on what constitutes an allowable cost for the various contracts. Continuum also worked to clarify allowable travel expenses by providing more detail in the contract budget language in the next contract year.

Finding 03-4: Ryan White Title I

Condition: A sample of cash disbursement transactions indicated that certain unallowed staff expense reimbursements were, in fact, reimbursed, and subsequently charged to this grant.

Recommendation: Continuum should conduct training for management staff on what constitutes an allowable cost for the various contracts.

Current Status: Continuum has trained its management staff on what constitutes allowable costs for the various contracts.

Finding 03-5: Ryan White Title 1

Condition: The internal controls implemented by Continuum to track and ultimately report its units of service for this program are not functioning properly. Testing indicated that units of service reported were not adequately documented and units of service documented were not reported.

Recommendation: Continuum should establish a quality control program, which would involve regular review and monitoring of services provided and reported.

Current Status: In March 2004, Continuum created the new senior management position – Director of Operations – to oversee all program operations, revise its quality assurance programs, and facilitate monthly agency-wide review of documentation. However, due to financial challenges resulting from funding cuts, the new director is only just beginning to conduct monthly quality assurance meetings on an agency-wide level. Previous quality assurance work was done at the program level.

CONTINUUM HIV DAY SERVICES
(continued)

Management Letter Comments:

Comment 1: Document Retention

Condition: Several disbursements did not have supporting documentation other than the copy of the check request form.

Recommendation: Continuum should attach all documentation related to each disbursement in the event that questions arise, or problems occur with a specific documentation.

Current Status: Continuum is confident that new measures and heightened scrutiny, already in place since the completion of the fieldwork, will satisfy this need.

Comment 2: Payroll Approval

Condition: A few employee timesheets did not have supervisor signatures.

Recommendation: Continuum should have a policy that supervisors should approve and sign all timesheets.

Current Status: Continuum currently has a policy for approval of timesheets; it will now return timesheets to the employee or supervisor if a signature is missing.

Comment 3: Eligibility Documentation

Condition: The auditors noted inconsistencies in the client files regarding relevant documentation to prove incarceration.

Recommendation: Continuum should print out and file the "Jail Medical Services Intake Screening Sheet" for all clients when applicable.

Current Status: According to Continuum, every effort is being made to ensure that all documentation is in place.

Comment 4: Journal Entries

Condition: Some journal entries did not have supporting documentation. Staff may not have been properly supervised.

Recommendation: Continuum should have a policy whereby a designated member of management will approve all journal entries. All entries should be initialed by the preparer and the approver and accompanied by full explanation and reference to supporting data.

Current Status: Continuum agrees that there was much turnover in the finance department in the current year, which led to a lack of supervision. A new controller is now in place and up to speed on the work.

CONTINUUM HIV DAY SERVICES
(continued)

Comment 5: Timely Closing of Accounting Periods

Condition: Numerous entries were made to closed accounting periods during the year-end close process.

Recommendation: Continuum should develop policies and procedures to aid in performing timely monthly closings. In addition, Continuum should establish controls over the closing process to ensure that financial information is properly stated.

Current Status: Continuum has set new deadlines for the financial closing of each month and the monthly reconciliation of all balance sheet accounts.

Comment 6: In-Kind Donations

Condition: Continuum does not keep documentation of how the fair market values of in-kind donations are derived. Also, one item on their in-kind listing was not a valid in-kind service.

Recommendation: Continuum should ask the donor to submit a letter along with the donation stating the fair value of the in-kind donation or Continuum should provide the donor with such a letter.

Current Status: Continuum has adopted this new requirement for in-kind giving.

Comment 7: Timing of Invoice Filings

Condition: Continuum did not meet the invoice filing deadline of the 15th of each month.

Recommendation: Continuum should implement procedures to meet the filing deadline on a monthly basis. By doing so, it will ensure that their invoices are approved for reimbursement.

Current Status: Continuum has adopted a new month-end closing schedule to include the timely filings of all invoices.

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 2004-05: $1,045,981

Federal Funds Received From Public Health in FY 2004-05: $1,045,981

Single Audit Findings: None

Management Letter Comment:

Comment 1: Financial Reporting System

Condition: The County uses a financial reporting system, known as MARS, to process accounting transactions and generate reports on operations. However, that system appears to be limited in scope, as the general ledger has historically not included all information required preparing comprehensive financial statements. Also, transactions for certain funds are being recorded using a chart of accounts that does not adequately report the financial transactions. As a result, transactions must be analyzed and categorized outside of the system for the preparation of financial statements. This was also a prior recommendation.

Recommendation: The County should review the capabilities of the existing accounting system to determine whether financial statements can be generated by the accounting system. Also, all financial statement account balances should be recorded on the accounting system to ensure complete financial statement reporting. Finally, the chart of accounts for the proprietary funds should be modified to include account balances for capital assets, depreciation and long-term debt transactions, to better report the activities of these funds.

Current Status: The County has begun implementation of a new integrated financial and human resource and payroll system. This includes a redesign of the County's chart of accounts. The redesigned chart of accounts and the functionality available in the new system will facilitate implementation of the recommendations. The system is expected to "go-live" in July 2006.

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COUNTY OF SAN MATEO

The County of San Mateo's 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 2004-05: $2,226,607

Federal Funds Received From Public Health in FY 2004-05: $2,226,607

Single Audit Findings:

Finding 04-1: Temporary Assistance for Needy Families (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.

Recommendation: Management should emphasize the importance of completing all required forms for eligibility determination. Also, supervisory review should ensure that all documents are complete.

Current Status: Management concurred and will issue a notice to staff and will explore the formation of a case review workgroup.

Finding 04-2: HOME Investment Partnerships Program (HOME)

Condition: The County did not obtain a single audit report for the City of Daly City for fiscal year 2003 and therefore, did not comply with subrecipient monitoring requirements established by OMB Circular A-133.

Recommendation: The County should emphasize the importance of adherence to existing policies requiring the documentation and review of subrecipient monitoring activities. Procedures should be developed and implemented to ensure that subrecipients who are required to have single audits performed in accordance with OMB Circular A-133 do so within nine months of the end of the their fiscal period; subrecipients submit a copy of their single audit report to the County in a timely fashion; and the County follows up on any finding identified in the subrecipients' single audit report within six months after receipt of the audit report.

Current Status: The Office of Housing has been working on a set of procedures to address the ongoing monitoring of completed projects.

Finding 04-3: HOME Investment Partnerships Program (HOME)

Condition: Three of the ten HOME projects tested for compliance with Housing Quality Standards requirements, as stated in Part 4 of the OMB Circular A-133 Compliance

Supplement, did not have a housing quality inspection performed on a timely basis.

Recommendation: The County should modify its Housing Quality Standards inspection policies to ensure that the required on-site inspections are performed on a timely basis. Supervisors should ensure that the responsible program specialists schedule and conduct the inspection within the required timeframe.

Current Status: The County's Office of Housing is in the process of implementing a corrective action plan, including an asset management manual and annual checklist.

Finding 04-4: Child Support Enforcement Program

Condition: During testing of internal controls and compliance over procurement, suspension and debarment related to the Child Support Enforcement program, the CPAs found that the County had not obtained documentation from two of the vendors selected for testing, certifying that they had not been suspended or debarred from participating in federally funded programs. Management indicated that it had checked the U.S. General Services Administration (GSA) Excluded Parties List System, but had not documented this procedure in its procurement files.

Recommendation: Before approving a contract, the County should develop and implement procedures requiring vendors to provide the appropriate certifications that they are neither suspended nor debarred. Alternatively, the County should document that its program staff has reviewed the GSA listing and determined that the potential vendor is not included on the listing of suspended or debarred organizations.

Current Status: Management states that it does check the GSA listing for every potential vendor of services. It is taking steps to ensure that its staff that have reviewed the GSA listing, and determined that a potential vendor is not included, retain proper documentation in each contractor's procurement file.

Finding 04-5: HIDTA, Medical Assistance, and Healthy Community Access Programs

Condition: The County is improperly reporting the federal expenditures for several programs as follows:

- High Intensity Drug Trafficking Area Program – The Sheriff's Department was only reporting the current year's grant allocation amount, a practice used in all prior years' schedule of expenditures of federal awards (SEFA) as well.
- Medical Assistance Program – The Aging and Adult Service Division was not reporting the federally funded In-Home Supportive Service program portion of the grant. It had also been excluded from prior years' SEFAs.
- Health Community Access Program – The Department of Health Services did not report $591,543 in federally funded expenditures incurred during fiscal year 2003. These expenditures were included as part of the current reported expenditures balance of $1,118,051.

Recommendation: The County should ensure that all current year federally funded expenditures are properly reported in the SEFA.

Current Status: The Sheriff, Aging and Adult Services, and Health Services will each review their federally funded expenditures to ensure that all are accounted for and reported properly.

Management Letter Comments:

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: Management has revised its policies for delinquent loans and forgivable loans and will work on analyzing the loan portfolio to determine a reasonable reserve estimate by December 2005.

Comment 2: Mortgages Receivable – Matured Loans

Condition: Three outstanding loans that matured during fiscal year 2000, 2002, and 2003 had not been processed by the County to either collect or forgive them.

Recommendation: The County's Housing Department should inform AmeriNational Community Services, Inc., of these matured loans so that they can be addressed immediately. The Housing Department should also establish procedures to periodically review the outstanding loan reports.

Current Status: Management agrees that there should be a closer review of collection services provided by AmeriNational Community Services, Inc.

Comment 3: Capital Assets – Software Capitalization

Condition: The County has not capitalized any expenditures related to software costs.

Recommendation: The County should inventory its software and determine the necessity to capitalize existing software. In addition, the County should develop procedures to capture and appropriately capitalize software expenditures that meet the County's capitalization threshold.

Current Status: Management has established new procedures to ensure proper accounting for software expenditures that are subject to capitalization. Separate processes are being conducted to analyze prior year software expenditures.

Comment 4: New Accounting and Financial Reporting Standards

Condition: GASB 45 requires the County to obtain an actuary study of the sick leave conversion benefits to project the total cost of health benefits for retirees. Based on the study, an annual required contribution amount will be calculated and the amount will need o be reported and disclosed on the financial statements.

Recommendation: The County should consult with an actuary to develop a better understanding of and to quantify the impact of GASB 45.

Current Status: The County has begun a project to implement GASB 45.

Prior Year Management Letter Comments:

PY Comment 1: Medical Center Accounting

Condition: The division of responsibilities for accounting and financial reporting between the Controller's Office and the Medical Center's accounting staff was unclear. The Medical Center staff was unable to provide certain details related to transactions, was unable to provide reasoning and explanations for entries originated by the Controller's Office and was unable to reconcile beginning net assets. Further, the Medical Center did not have policies and procedures relating to documentation, review and approval of journal entries, documentation and monitoring of non-routine and related–party transactions and aggregation of Medical Center funds and detailed steps for trial balance conversion to GAAP.

Recommendation: The County should develop detailed policies and procedures to better understand and to clarify the responsibilities of Medical Center staff and the Controller's Office. These policies and procedures should be used as a basis for training the Medical Center accounting staff. Further, the chief financial officer should formalize and document accounting and financial reporting policies and procedures in a manual.

Current Status: This audit report indicates that this recommendation is in process.

PY Comment 2: Documentation for Journal Entries

Condition: A sample of 25 journal entries processed yielded 18 entries with no supporting documentation. In addition, three of the journal entry packets could not be located.

Recommendation: The Controller's Office should require departments to attach the appropriate supporting documentation to all journal entries prior to processing and should review their filing procedures to ensure that the documentation is retained.

Current Status: The County has implemented procedures to strengthen its internal controls over journal entry processing.

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 71 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 120-bed emergency housing and support service program for homeless men.
- Richard M. Cohen Residence – A ten bed, twenty-four hour care assisted living residence for homeless men and women with disabling HIV or AIDS.

Total Amount Received From the City in FY 2004-05: $880,130

Federal Funds Received From Public Health in FY 2004-05: $244,900

Single Audit Findings:

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: The entire finance department has been replaced or is in the process of being replaced. The previous bookkeeper has been replaced and Dolores Street is in the process of interviewing for a new finance director, who will oversee the bookkeeper and will be required to be knowledgeable and diligent in the preparation of accurate monthly financial statements for the board of directors' use.

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: See current status under finding 04-1. In addition, the interim executive director has reviewed the 2004 audit with the new bookkeeper so as to educate and direct the bookkeeper to maintain proper controls of those accounting areas that were identified as problematic. The finance committee will undertake a review of the structure of expense allocations by operating department to more intensely monitor the matching revenue sources for those expenses. Concurrently, the board of directors is augmenting the personnel and skills of its finance committee to increase its capabilities for oversight. Finally, Dolores Street is pursuing a stability analysis from a qualified consultant to be directed by the board of directors toward its need for more accurate financial reporting.

Management Letter Comments:

Comment 1: Account Coding

Condition: The organization did not properly classify additional grants solicited by recording the solicited grants to the funding they replaced rather than the accounts relating to their nature. Additionally, a grant that was intended to pay salaries was coded to salary expense rather than grant revenue.

Recommendation: All transactions should be recorded to the accounts reflecting the actual source or use and coverage or incurring of costs tracked through cost centers.

Current Status*:* The Senior Management Team regularly reviews contracts, grants, budgets and financial statements to guarantee accuracy. The organization has also hired an accounting consultant to assure that each month's closing statements coincide with contracts and budgets. The day to day accounting is handled by the bookkeeper, a recent accounting graduate from San Francisco State University, who works closely with the Senior Management Team in reviewing financial data. Monthly closings are audited by an accounting consultant that is independent from the independent auditor.

Comment 2: Board Minutes

Condition: The November 2003 minutes discuss the budget passed in July 2003, but the July minutes did not reflect this action.

Recommendation: As Board minutes are the legal documentation of the actions of the Board, they should, at a minimum, include all decisions and resolutions made by the Board of Directors.

Current Status*:* Board minutes are regularly recorded by the secretary of the Board of Directors and are now kept in a binder available for viewing in the office.

Comment 3: Personnel File

Condition: Payroll record forms lacked evidence of approval by members of management or by the employee.

Recommendation: The organization should put in place, a payroll record review procedure to ensure that all required approvals are obtained before changes are enacted.

Current Status*:* Dolores Street has also retained the services of PAYCHEX Inc. that provides technical support for the agency regarding human resources including personnel files.

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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 4,500 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 2004-05: $8,513,599

Federal Funds Received From Public Health in FY 2004-05: $ 126,823

Single Audit Findings: None, but note that ECS was not required to file a single audit for FY 2003-04; however it did have single audits for FY 2002-03 and 2004-05.

Management Letter Comments:

Comment 1: Financial Projections

Condition: ECS recently updated its strategic plan without financial projections and has entered into an agreement to develop a new supportive housing project.

Recommendation: ECS' strategic plan should incorporate the development of financial projections, which considers and contemplates anticipated trends in housing services as well as the availability of public and private financing in San Francisco. The projections should also consider the need for any capital improvements and long-term maintenance projects, ECS's current programs and the continued availability of government funding and contributions.

Current Status: The points in the recommendation are consistent with the strategic plan and have been implemented in part by establishing a new CFO position in the past year. The initial focus of this position has been on forecasting and financial projections.

Comment 2: Audit Committee

Condition: Under new legislation, the ECS is required to have an audit committee, separate from the finance committee.

Recommendation: The ECS should form an audit committee. The committee would meet with the independent auditor, recommend the annual audit to the board for approval, monitor the implementation of any recommendations, and oversee risk-management activities. The committee should understand the financial controls within the ECS and that proper checks and balances exist.

Current Status: The ECS board of directors has formed an audit committee separate from the finance committee.

EPISCOPAL COMMUNITY SERVICES
(continued)

Comment 3: Conflict of Interest

Condition: The ECS does not have a conflict of interest policy.

Recommendation: The ECS should develop a conflict of interest policy. Directors and senior managers should review the policy and sign a statement on an annual basis. Directors should also acknowledge and identify any potential conflicts that they may have.

Current Status: The ECS board of directors passed a conflict of interest policy in January 2005.

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 2004-05: $6,133,619

Federal Funds Received From Public Health in FY 2004-05: $ 285,353

Single Audit Findings: None

Management Letter Comments:

Comment 1: Accounting Manual

Condition: It has been several years since the Agency has updated its accounting manual.

Recommendation: The Agency should update the accounting manual, outlining the policies and procedures required on a monthly basis, to ensure that account balances are valid, complete, and accurate.

Current Status*:* The Agency's fiscal operations drafted an updated accounting manual inclusive of the audit recommendations.

Comment 2: Donated Services

Condition: The Agency currently has no policy for the valuation of donated services.

Recommendation: The Agency should establish and approve a policy for donated services and the valuation of such services.

Current Status*:* An In-kind valuation policy was developed by December 31, 2004.

Comment 3: Property and Equipment

Condition: It has been several years since the Agency has taken a physical inventory of its property and equipment.

Recommendation: The Agency should conduct a complete physical inventory, reconcile it to the property and equipment subsidiary ledger, and make any necessary adjustments.

Current Status*:* A complete agency physical inventory was taken before June 30, 2005.

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FAMILY SUPPORT SERVICES OF THE BAY AREA

Family Support Services of the Bay Area (Family Support) is a private, nonprofit organization that provides services in Alameda, Contra Costa, San Francisco and San Mateo Counties and has offices in Oakland and San Francisco, California. Family Support was formed to provide supportive services to families caring for children with special needs. Its purpose is to strengthen the family unit and support parents and other caregivers. To accomplish its purpose, Family Support has entered into many third-party reimbursement arrangements with federal, state, and local governments.

Total Amount Received From the City in FY 2004-05: $1,378,364

Federal Funds Received From Public Health in FY 2004-05: $ 32,070

Single Audit Findings: None

Management Letter Comments: None

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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.

Total Amount Received From the City in FY 2004-05: $440,469

Federal Funds Received From Public Health in FY 2004-05: $377,231

Single Audit Findings:

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 updated its fiscal and accounting policies to segregate and track other program income in accordance with OMB A-110, Section 24. The set-up of the accounting system has been modified to track program income by grant or contract.

Management Letter Comments:

Comment 1: Budgeting

Condition: Some of the grant budgets did not reflect the true costs that were required for the contract.

Recommendation: Grant budgets should be accurately prepared.

Current Status: Grant budgets are now accurately prepared.

Comment 2: Allocation of Expenses

Condition: Common expenses are first charged to the largest grant and when the budgeted line item is exhausted, then the expense is charged to the other grants.

Recommendation: For proper cost allocation, an allocation formula should be developed and all allocable expenses should be allocated accordingly when incurred. The MIP accounting software has a distribution feature that can facilitate the posting of transactions.

Current Status*:* 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 co-relate with the actual usage. A more direct allocation base would be direct salary or FTE.

Comment 3: Financial Statement Presentation of Program Services

Condition: The audited financial statements do not separately report expenses by different programs.

Recommendation: Friendship House should revise the accounting structure to allow grouping by major program categories and report expenses according to those categories prospectively.

Current Status*:* Expenses are now reported by program.

Comment 4: Client Fees

Condition: Friendship House reports client fees (program income) in the General Fund, which makes it difficult to trace how the client fees were used.

Recommendation: Client fees should be reported with the grant for better tracking.

Current Status: Client fees are now reported with the grant.

Comment 5: Form I-9 Documentation

Condition: Out of 24 employees selected for review, three employees did not have the required Form I-9 documentation on file and nine had incomplete documentation.

Recommendation: Friendship House should maintain the proper legal status forms for its employees.

Current Status*:* Friendship House has not complied with this finding. It should perform a complete review of all personnel records to ensure that I-9 documentation is complete and establish procedures to assure proper documentation is obtained during staff orientation.

Comment 6: Payroll Account

Condition: Friendship House maintains a separate bank account whose function can easily be accommodated by its regular operating account.

Recommendation: Friendship House should close the separate bank account in order to streamline its bookkeeping.

Current Status*:* The separate account has been closed.

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

Comment 7: Payroll Internal Control

Condition: The payroll clerk prepares payroll and also receives the paychecks from ADP.

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 has not yet implemented this recommendation.

Comment 8: Vacation Policy

Condition: Friendship House's maximum accrual of vacation leave may not be in compliance with labor laws. In addition, the cash-out option of unused vacation is contrary to the mandatory vacation internal control and may also potentially burden the organization with extra vacation pay.

Recommendation: Management should consider checking with a labor attorney to make sure the maximum accrual of vacation leave is in compliance with the labor law. Also, it should consider changing its vacation cash-out option.

Current Status*:* Friendship House has implemented this recommendation.

Comment 9: Personnel Action Form

Condition: Friendship House's current method of communicating payroll activities is inefficient.

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*:* The HR manager started using the new personnel action form; however, the form was no longer used after she left the organization.

Comment 10: Fixed Assets Capitalization Policy

Condition: Friendship House's capitalization policy of $1,000 is too low.

Recommendation: OMB A-122 allows a maximum capitalization threshold of $5,000, which Friendship House should use to reduce bookkeeping for fixed assets and reconciliation between its books and the federal funding it receives.

Current Status*:* The capitalization policy has been changed to $5,000.

Comment 11: Infrastructure of the Expanded Organization

Condition: Since Friendship House will be more than doubling its residential treatment program, its current staff may not be sufficient to handle the increased demands.

Recommendation: Friendship House should ensure that adequate staff is in place to handle the extra capacity, accounting and compliance demands.

Current Status*:* Friendship House is addressing this recommendation.

Comment 12: Dissolution of Healing Center LLC

Condition: Friendship House did not file California tax returns for 2000 through 2004 for its Healing Center LLC. This LLC cannot be dissolved until Friendship House files these tax returns and pays the associated liability.

Recommendation: Friendship House should file all the required tax returns and pay the LLC tax. It may also want to take advantage of the amnesty program for years 2000-2002 to avoid paying the late filing penalties for these years.

Current Status*:* Friendship House has complied with this recommendation.

Comment 13: Accounting Policies and Procedures Manual

Condition: Friendship House's accounting policies and procedures manual is outdated due to staff turnover and changes in its policies and procedures.

Recommendation: Friendship House should update or create a new manual.

Current Status*:* Friendship House has complied with this recommendation.

Comment 14: California Nonprofit Integrity Act (SB 1262)

Condition: The passage of SB 1262 will affect many nonprofit organizations.

Recommendation: Friendship House should consider the many provisions of SB 1262 which may affect Friendship House's operations.

Current Status*:* Friendship House is addressing this recommendation.

THE GLIDE FOUNDATION

The Board of Trustees of the Glide Foundation (Glide) is a benevolent and religious organization incorporated in 1929 under the laws of the State of California to promote religion, charity and education thought the world in accordance with the doctrines accepted and adopted by The Methodist Episcopal Church, South, which has since been succeeded by the United Methodist Church. As part of its mission, Glide provides the following services to the poor and homeless in the Tenderloin and other poor, high-risk communities of San Francisco and the Bay Area. These services are: Free meals program; Human services, education and family program; and Global ministries.

Total Amount Received From the City in FY 2004-05: $1,311,357

Federal Funds Received From Public Health in FY 2004-05: $ 285,404

Single Audit Findings: None

Management Letter Comments:

Note: Although management has already addressed the issues raised, Glide has specifically requested that the contents of its Management Letter not be included in this report.

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HAIGHT ASHBURY FREE CLINICS, INC.

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

Total Amount Received From the City in FY 2004-05: $9,856,941

Federal Funds Received From Public Health in FY 2004-05: $1,154,641

Single Audit Findings:

Finding 03-1: Grant Administration

Condition: Management did not maintain sufficient control over grant administration, including segregation of duties as well as timely, accurate dissemination of information. As a result, the auditors found certain deficiencies, including:

- Contract Department and Chief Financial Officer (CFO) routinely approved check requests for expenditures in excess of program budgets, often without advising Program Directors of such deficit spending;
- 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;
- The Controller prepared all allocations of indirect costs to program; however, no reports were provided to Program Directors detailing amounts, as well as methodology, allocated to programs;
- CFO did not properly allocate costs to programs; that is, costs were allocated to programs based on need and not on allowability and allocability to specific programs.

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: The current Chief Executive Officer and consulting Chief Financial Officer were retained in April of 2005. In review of the records and procedures at Haight Ashbury, management concurred that it failed to take corrective actions to mitigate the areas of weakness and non-compliance, up to and including June of 2005. Management is implementing appropriate measures to mitigate these issues, and expects to achieve substantial compliance by August of 2005, such that contracts commencing July 1, 2005 (approximately 80 percent of Haight Ashbury's contracts and grants) will be administered correctly at such time.

Finding 03-2: 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.

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.

Current Status: Prior to May 2005, Haight Ashbury admitted that it had not administered its general ledger in accordance with good accounting standards, and acknowledged that these deficiencies are highly significant and require correction. Commencing in May 2005, appropriate general ledger accounting practices are being implemented; management expects substantial compliance in this area by July 2005.

Finding 03-3: Purchasing

Condition: There is neither an approval process for a purchase prior to the commitment (purchase order, for example) nor does management regularly review and approve vendors used by Haight Ashbury.

Recommendation: Management should establish procedures to accelerate the approval of purchases and to authorize vendors. For example, a separate employee could be assigned responsibility to input vendors that management has approved. Haight Ashbury should also consider implementing the use of purchase orders, whereby management, prior to commitment approves expenses. In addition, periodic management review of the approved vendor listing could be implemented.

Current Status: Management did not agree with the segregation item, but did concur with the remaining items of this finding.

Finding 03-4: Adjusting Journal Entries

Condition: The Controller and Senior Accountant can initiate, approve and record nonstandard journal entries. Currently, there is no formal approval process for either nonstandard or standard journal entries. The auditors also noted that there was no supporting documentation for journal entries and that, in many instances, the explanations accompanying the entries were inadequate.

Recommendation: Haight Ashbury should adopt a policy whereby a responsible member of management will approve all journal entries. In order to attribute responsibility to the appropriate individuals, both the preparer and the individual approving the journal entries should initial them. All journal entries should be accompanied by full explanation and reference to adequate supporting data. Auditor was able to obtain sufficient audit evidence over journal entry process; however, internal control systems should be in place and operational.

Current Status: Haight Ashbury has not administered the general ledger in accordance with good accounting standards prior to May 2005, and acknowledged that these deficiencies are highly significant, and require correction. Commencing in May of 2005, appropriate general ledger accounting practices are being implemented; management expects substantial compliance in this area by July 2005.

Finding 03-5: Payroll Processing

Condition: There is a lack of management oversight of accounting functions. As a result, although payroll represents a significant portion of Haight Ashbury's expenditure activity, no secondary review of payroll is performed either before or after payroll processing. In addition, program directors are not provided with periodic detail of salaries charged to the program.

Recommendation: The lack of management oversight of payroll increases the risk that an error or irregularity could occur and go undetected. The auditors recommend that a member of management periodically review payroll reports prior to final processing as well as review processed payroll to ensure the appropriateness of payees and their corresponding rates of pay. In addition, the auditors recommend that management provide program directors with timely (monthly, for example), detailed information regarding personnel and salaries charged to their programs. Auditors were able to obtain sufficient audit evidence over payroll process; however, internal control systems should be in place and operational.

Current Status: Management agreed with the finding, noting the mitigation of conditions within this finding from the prior year audit. Since May 2005, management has implemented review of payroll on a regular basis, particularly with regard to validating employees and contract costing.

Finding 04-1: Allowable Costs/Cost Principles

Condition: Indirect cost negotiations with the cognizant agency have not been performed in many years, so there has not been annual monitoring of such rate. Consequently, indirect costs are being claimed at a higher rate (15 percent) than the percentage allowed on the award (as well as in the budget that entity submitted to the funding agency) of 12 percent. Item is isolated to Sober Living contract.

Recommendation: Haight Ashbury should consider re-establishing annual indirect cost negotiations with the cognizant agency and ensure that grants are properly monitored so that the award-specific indirect cost rate is applied.

Current Status: Management concurs that during 2004 through June of 2005 indirect costs for the Sober Living contract were charged 15 percent. The cost allocation will be corrected to the 12 percent contract-specified indirect cost rate prior to submission of any cost reports to the funding agency. This category of fiscal error is consistent with past practices at Haight Ashbury pertaining to the allocation of indirect and fringe benefit costs to contracts based on unsupported methodology and in certain cases at rates that are not compliant with the contract. While management is committed to correction of this problem for contracts commencing July 1, 2005 forward, it is probable that similar deficiencies may be present in the financial accounts prior to July 1, 2005.

Finding 04-2: Cash Management

Condition: Award funds were drawn down outside of a reasonable time to expend such funds; in addition, deferred revenue balance exceeded cash and available investment balance at 12/31/04. Item is isolated to Sober Living program.

Recommendation: Haight Ashbury should ensure that advance drawdowns occur in respect to known, reasonably near-term expenditures. Use of a detailed budget would assist in this procedure.

Current Status: Management concurred with these findings. This use of restricted funds for other operating expenses is a very serious fiscal management deficiency. Current management is working on solutions both with the management arena (policies and procedures for daily operations) as well as consideration of possible external controls (trust accounts). It is probable that similar problems relating to the use of restricted funds continued until June 2005.

Finding 04-3: Period of Availability of Federal Funds

Condition: In order to pay a subcontractor, the funds for whom had either already been spent on the program or misappropriated by a former employee, direct expenses attributable to closed award (DA10641 – project end 8/31/02) of $150,634 were charged as indirect expenses to current award (AA014030).

Recommendation: Haight Ashbury should ensure that expenditures are charged to the appropriate program and, specifically for this item, consider requesting reimbursement from funding agency based on legitimacy of expenses as well as extenuating circumstances.

Current Status: Management concurred with this finding, and acknowledged that Haight Ashbury management should not have charged this expense to the current contract. Although this is not a cost reimbursement contract, only the specific allowable expenses for this specific contract period should be expensed to the contract. Correction of this costing error will be made to the contract expenses.

The new management team did not find evidence of any corrective action plan developed and implemented in response to the 2003 audit findings, as of April 30, 2005. In fact, the priority of the new management team, since commencing work at Haight Ashbury in April 2005, has been to:

- Get control of cash flow to ensure the survival of the organization.
- Restore confidence with its primary contracting agency (City and County of San Francisco) in order to obtain contracts for the 2005-2006 fiscal year.
- Manage agency operations, including financial re-structuring (sale of assets, reduction of debts).
- Complete the 2004 financial statement and compliance audits.
- Commencing to address the deficiencies in the financial accounting area, including those cited as deficiencies in the 2003 and 2004 audit results.

The process of implementing corrective action has begun and will continue throughout the coming months. Management's objective is to have implemented a sufficient percentage of the corrections to ensure that new contracts that commence July 1, 2005, will be handled correctly. The corrective action plan from the current management team is scheduled for early August in draft, consistent with the requirements of the Office Inspector General of the U.S. Department of Health and Human Services. The corrective actions required are extensive, including the recruitment of a qualified permanent controller, contracts administrator, and possibly additional staff position, in addition to policies and procedures.

Management Letter Comments:

Comment 1: Policies and Procedures Manual

Condition: Haight Ashbury did not have a written procedures manual documenting all accounting policies and procedures.

Recommendation: Haight Ashbury should take the time to 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.

Current Status: Not available.

Comment 2: Disaster Recovery Plan

Condition: Haight Ashbury does not have a formal documented disaster recovery plan.

Recommendation: Haight Ashbury should formally document their plan of recovery in case of disaster. This plan should be given toll employees, current and new, in order to ensure that all employees are aware of the procedures necessary to maintain sufficient records in the event of a disaster. The plan should also be periodically tested to ensure if it is effective and operational.

Current Status: Not available.

Comment 3: Budgeting

Condition: Haight Ashbury did not adhere to nor did they closely monitor their annual budget.

Recommendation: The budget set by Haight Ashbury should be established prior to the commencement of the fiscal year, be as realistic as possible and be closely monitored. Budgets are invaluable tools to monitor revenues and maintain expenses at reasonable levels.

Current Status: Not available.

Comment 4: Investments

Condition: Haight Ashbury does not adhere to and has not adequately communicated its investment policy to investment managers/advisers. Also, the policy only requires one signature to transfer investment funds and there were no restrictions with respect to the accounts the funds can be wired to.

Recommendation: Haight Ashbury should adhere to and communicate its investment policy to all investment managers/advisers. It should also take appropriate procedures to monitor and enforce the policy. In addition, the accounts investment money can be wired to should be limited via bank enforced restriction to the operating cash accounts only, and a minimum of two authorized signatures should be required for all approved wires.

Current Status: Not available.

Comment 5: In-Kind Revenue and Expenses

Condition: Haight Ashbury's old method of valuation of in-kind revenue and expense values for donated services may no longer relate to the fair market values of services received.

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.

Current Status: Not available.

Comment 6: Mandatory Vacations

Condition: Haight Ashbury does not have a policy requiring mandatory vacations for accounting personnel. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes.

Recommendation: Haight Ashbury should implement a mandatory vacation policy for all accounting personnel.

Current Status: Not available.

Comment 7: Policy on Fraud

Condition: Haight Ashbury does not have a written policy regarding communication of their business practices, ethical values, and reporting of fraudulent activity.

Recommendation: Haight Ashbury should adopt and implement an official policy regarding the communication of their business practices, ethical values, and reporting of fraudulent activity. Haight Ashbury should have 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 their financial statements.

Current Status: Not available.

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HEALTH INITIATIVES FOR YOUTH

Since 1992, Health Initiatives for Youth (HIFY), a California nonprofit corporation, has crafted and mobilized a unique partnership of youth and adults working to improve the health and well being of young people. HIFY provides training, skill development, special events and publications to thousands of youth each year. HIFY actively solicits ideas and information from Bay Area Youth to learn first hand their needs, challenges, concerns and barriers to care. Using this information and knowledge, HIFY supports adults who work with youth in developing youth-friendly services. HIFY provides training, technical assistance, and publications for thousands of providers of health care and youth services annually.

Total Amount Received From the City in FY 2004-05: $85,711

Federal Funds Received From Public Health in FY 2004-05: $85,711

Single Audit Findings: None.

Management Letter Comments: None.

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HORIZONS UNLIMITED

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 2004-05: $1,721,970

Federal Funds Received From Public Health in FY 2004-05: $ 192,872

Single Audit Findings: None

Management Letter Comments: None

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INSTITUTO FAMILIAR DE LA RAZA, INC.

Instituto Familiar De La Raza, Inc. (La Raza) is a multi-service community health and social service agency with emphasis in serving the Chicano/Latino community in San Francisco with a special focus on the diverse needs of the Mission District. Services include a wide range of mental health, HIV related services, and social services including health promotion, education, prevention, early intervention, case management, and clinical and artistic mentoring services, psychological and psychiatric interventions as well as cultural/social and spiritual re-enforcement.

Total Amount Received From the City in FY 2004-05: $4,963,927

Federal Funds Received From Public Health in FY 2004-05: $ 671,713

Single Audit Findings: None

Management Letter Comments: None

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IRIS CENTER: WOMEN'S COUNSELING & RECOVERY

Iris Center is a not-for-profit organization that provides general counseling, recovery counseling, and HIV counseling and education to a diverse group of women and their families.

Total Amount Received From the City in FY 2004-05: $1,102,857

Federal Funds Received From Public Health in FY 2004-05: $ 275,095

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 2004-05: $4,797,967

Federal Funds Received From Public Health in FY 2004-05: $ 32,147

Single Audit Finding:

Finding 04-1: Early and Transitional Living Skills

Condition: Gift certificates for various retail stores, theaters and restaurants with a cost totaling $28,550 were purchased as incentives for youth participants to attend group-training sessions. There was documentation to support the use of only $1,266. As a result, questioned costs amounted to $27,284.

Recommendation: A sign-out sheet should be utilized for gift certificates provided to beneficiaries. The sign-out sheets should be forwarded to the accounting department, reconciled to beneficiary lists, and retained. Program purchases using gift certificates should be curtailed and replaced by the organization’s normal purchasing and cash disbursement procedures.

Current Status: A sign-out sheet has been utilized for gift certificates provided to beneficiaries. The sheets are being forwarded to the accounting department, reconciled to beneficiary lists and retained. Further, program purchases using gift certificates have been curtailed and replaced by the Council’s normal purchasing and cash disbursement procedures.

Management Letter Comment:

Condition: The Council used its credit cards for the purchase of personal items. Even when reimbursed, personal purchases on credit cards constitute loans to employees with no controls or prior authorization. Also, a large number of purchases are made through credit cards.

Recommendation: To improve efficiency and controls, the Council should either reduce the number of credit card purchases or institute procedures for pre-approval of major credit card purchases.

JAPANESE COMMUNITY YOUTH COUNCIL
(continued)

Current Status: The Council has amended its credit card policy, effective January 2005.

JEWISH FAMILY AND CHILDREN'S SERVICES

Jewish Family and Children's Services (JFCS) is a not-for-profit organization that provides comprehensive social services to children, adults, and the elderly, as well as immigration and resettlement services, in a geographic area from Mountain View to Santa Rosa, California.

Total Amount Received From the City in FY 2004-05: $1,080,411

Federal Funds Received From Public Health in FY 2004-05: $ 20,000

Single Audit Findings: None

Management Letter Comments: None

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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 3,000 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 2004-05: $3,088,904

Federal Funds Received From Public Health in FY 2004-05: $ 670,934

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 2004-05: $913,671

Federal Funds Received From Public Health in FY 2004-05: $221,280

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 2004-05: $1,034,046

Federal Funds Received From Public Health in FY 2004-05: $ 693,815

Single Audit Findings: None

Management Letter Comments: None

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LYON-MARTIN WOMEN'S HEALTH SERVICES

Lyon-Martin Women's Health Services (Lyon-Martin) was formed in 1979 as a California nonprofit public benefit corporation for the purpose of providing quality low-cost health care services to women. Lyon-Martin is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from California franchise tax under Section 23701(d) of the Revenue and Taxation Code.

Total Amount Received From the City in FY 2004-05: $428,893

Federal Funds Received From Public Health in FY 2004-05: $321,808

Single Audit Findings: None

Management Letter Comments: None

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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. Maitri is tax-exempt. 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 2004-05: $1,368,744

Federal Funds Received From Public Health in FY 2004-05: $1,368,744

Single Audit Findings: None

Management Letter Comments:

Comment 1: Documentation of Accounting Procedures and Internal Controls

Condition: Maitri does not have an Accounting Policies & Procedures Manual.

Recommendation: The auditors gave Maitri an AICPA-prepared document entitled, *Management Antifraud Programs and Controls*. The CPA then recommended that Maitri consider the issues addressed in this document, and prepare an internal controls and accounting procedures manual.

Current Status: Not available.

Comment 2: Cash Receipts Procedures

Condition: Incoming checks are routed to the director of development who also enters them into the donor database and forwards the checks to the bookkeeper for deposit.

Recommendations: To improve internal controls, the auditors recommend the following:

- Checks should be endorsed with a bank stamp by whomever opens the mail (this should not be the director of development). Further, 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.

- The checks should then be forwarded to the bookkeeper for deposit. A third party should periodically check the deposits 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: Not available.

MAITRI
(continued)

Comment 3: Accounting for Special Events

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

Recommendation: To comply with IRS reporting requirements, as well as improve the usefulness of its financial statements, Maitri should establish a separate income category for special events. Maitri should also discontinue the practice of netting out income and expenses on its balance sheet.

Current Status: Not available.

Comment 4: Accuracy of Grant Billings

Condition: In July 2003, Maitri billed CARE for more than the maximum possible units of service. This seems to have occurred because in June 2003, Maitri underbilled the units of service and obtained approval from CARE to compensate for this by overbilling in July 2003.

Recommendation: Additional care should be taken in preparing the billings to ensure that the proper numbers of units are billed and that the contract maximum is not exceeded.

Current Status: Not available.

Comment 5: Contract Requirement – Eligibility Income Limits

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

Recommendation: Maitri should make the required adjustment to income annually.

Current Status: Not available.

MISSION HOUSING DEVELOPMENT CORPORATION

Mission Housing Development Corporation (Mission Housing), a California nonprofit public benefit corporation, provides affordable housing and housing assistance to low-income families, the handicapped, and the elderly in San Francisco.

Total Amount Received From the City in FY 2004-05: $561,756

Federal Funds Received From Public Health in FY 2004-05: $264,811

Single Audit Findings: None

Management Letter Comments:

Comment 1: Accounting Procedures Manual

Condition: Mission Housing does not have significant documentation of the day-to-day accounting procedures for the new accounting personnel to follow. This has made it difficult for the accounting department to function in a timely and efficient manner. As a result, management was not able to obtain monthly reports from the accounting department.

Recommendation: Mission Housing should develop a procedures manual for the accounting department. This manual should be detailed enough for new personnel to follow on a day-to-day and month-to-month basis. It should also include standard monthly reports to be submitted to the Executive Director.

Current Status: Management has commenced the revision of its Procedure Manual for the Accounting Department. Petty cash, accounts payable and the general ledger posting procedures have been revised with monthly reporting guideline in progress.

Comment 2: Accounting Department

Condition: The accounting department now appears to be adequately staffed to perform functions in a timely and accurate manner. However, Mission Housing could improve its internal controls as follows:

1. HUD has granted service coordinator grants to certain individuals. Bank accounts have been opened and are recorded on Mission Housing's books. These grants and bank accounts are not the property of Mission Housing. Mission Housing may administer the grants as a fiscal agent, but should not report the grant activity on its financial statements. The grant activity is not forwarded to Caritas Management Company (CMC) for proper inclusion in those entities' accounting records.
2. Monthly billings to HUD and reimbursements to Mission Housing have not been performed timely.
3. Costs were advanced by Mission Housing for the rehabilitation of the 24th Street rehab property and reimbursed to Mission Housing via loan draws. This activity was not forwarded to CMC to be recorded on the books of the rehab property.

MISSION HOUSING DEVELOPMENT CORPORATION
(continued)

Recommendations: Management must evaluate the staffing requirements of the accounting department to ensure that the accounting functions are performed timely and accurately. Management and the accounting department must develop procedures to ensure that the accounting records are being maintained on a current basis and reports of operations are provided on a monthly basis to management and at least quarterly to the Board of Directors.

1. The service coordinator grants to individuals should be included in the accounting records for those entities, not Mission Housing. Mission Housing may administer the grants. However, the grant activity should be forwarded to CMC for proper inclusion in those entities' accounting records. Also, the monthly billings to HUD and reimbursements to Mission Housing should be performed monthly.
2. Costs advanced by Mission Housing or paid with loan proceeds for any of its properties should be recorded as additions to the property and corresponding loan payable on the rehab accounting records.

Current Status: As of January 2005, HUD1 and HUD2 accounts are being tracked separately from Mission Housing funds. All billings are made to the specific property in a timely manner.

Comment 3: Communication with Management Company

Condition: As noted above, Mission Housing maintains certain accounting records pertaining to payroll, grants, and loans for various properties that are managed by CMC. The accounting information does not appear to be communicated to CMC for the inclusion of the activity in the properties' accounting records. Management has relied upon audit adjustments to properly record the transactions.

Recommendation: We recommend that Mission Housing and CMC establish procedures to enable CMC to properly record the transactions in the properties accounting records. These procedures should include proper documentation to support any expenditures paid by the property to Mission Housing or directly reimbursed to Mission Housing by a granting agency.

Current Status: As of 2005 bank statements are being photo copied and forwarded to CMC. Mission Housing and CMC record and reconcile property transactions. HUD1 and HUD2 monthly activities are being faxed to CMC as of September 2005. Additional procedures for improved communication are being established.

Comment 4: Deferred Mortgages Payable

Condition: Mission Housing has several deferred mortgages payable to the City and County of San Francisco that have matured in prior years. In the past, management has formally requested that the City extend the due dates on these deferred mortgages. Currently, management has not requested formal extensions of these mortgages. The City has not demanded payment of these mortgages, which management has interpreted as authorization to extend the due dates.

Recommendation: Management should request extensions of the deferred mortgages payable to the City and County of San Francisco.

Current Status: Mission Housing will resume its practice of requesting mortgage extensions from the City annually. The confirmation request will indicate that a non-response will be interpreted as an affirmative response from the City.

Comment 5: Grants Management

Condition: The amount of grants obtained by the Mission Housing has increased in recent years. A centralized process or procedure for managing the grants has not been established to ensure that the proper accounting and reporting requirements are met.

Recommendation: Mission Housing should establish a system to monitor grants applied for, awarded, and receivable. It would also include reporting requirements, due dates, and perhaps a log to monitor that all requirements have been met. This may consist of a file or binder for each grant that includes that grant agreement, budget, reporting requirements, and schedule of expenditures incurred in relation to the grant. This schedule of expenditures should include supporting documentation of expenditures, copies of invoices, checks, etc. Also included in the file would be copies of reports submitted to the granting agency as required.

Current Status: Grant monitoring procedures/practices have been revised to better track the grant portfolio.

Comment 6: Functional Allocation of Expenses

Condition: Mission Housing allocates expenses between the program services and management and general based upon the classification of accounts in the general ledger and estimates of the time involved for program services costs versus management and general costs. These estimates are general in nature, based upon discussion with employees and a review of their time records. Some of the allocations are not based upon a detailed analysis, with corresponding accounting schedules, of the actual times that employees may spend on program services versus management and general costs. Mission Housing does not have written procedures to document the functional allocation of expenses.

Recommendation: Mission Housing should develop written procedures to document the functional allocation of expenses. The procedures should establish a system of allocating the costs between program services and management and general, based upon detailed accounting records, employee time records, and other employee information. As a result, the financial statements and tax returns will contain information that more clearly represents the allocation between program services and management and general costs to the users of the financial statements and tax returns.

Current Status: Employee cost allocation procedures have been updated to require clearer delineation of time allocation.

Comment 7: Cash Management

Condition: Mission Housing maintains many of its accounts, both for Mission Housing and affiliated properties' reserve funds, in Merrill Lynch accounts. During the year 2004, we noted that funds that were previously invested in CD's matured and were not reinvested and therefore, were not earning interest.

Recommendation: Mission Housing should establish an investment policy and procedures to monitor the investment of cash accounts in accordance with its investment policy.

Current Status: Improved cash management procedures have been implemented.

Comment 8: Consultant's Internal Assessment of the Corporation's Fiscal Operations

Condition: It was noted during the audit that Mission Housing has engaged a consulting company to complete an internal assessment of its fiscal operations. We have reviewed the results of that engagement and feel that the consultants have identified a number of areas whereby Mission Housing can strengthen its fiscal operations.

Recommendation: Mission Housing should continue to work with the consultants in their assessment of Mission Housing's fiscal operations. Mission Housing should implement as many of their recommendations that can be completed in a timely and economical manner.

Current Status: Mission Housing has taken the following actions consistent with the consultant's strategic fiscal recommendations: 1) commencing in 2004, Mission Housing replaced its fiscal staff with highly skilled fiscal team members, 2) presented its Board a 2005 budget for approval in December 2004, and 3) in 2005, resumed providing monthly performance reports to management and the Board's Finance Committee.

Comment 9: Acquisition of Properties

Condition: Mission Housing obtained ownership to certain properties on December 31, 2003 by assuming the debt on the properties. However, the purchase of these properties was not recorded on its books.

Recommendation: We recommend Corporation must ensure that all documentation regarding any purchases or sales of properties must be distributed to the accounting department so that it can be properly recorded in the books in a timely manner.

Current Status: Improved controls have been implemented.

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 2004-05: $1,964,704

Federal Funds Received From Public Health in FY 2004-05: $ 691,502

Single Audit Findings: None

Management Letter Comments: None

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MOUNT ST. JOSEPH-ST. ELIZABETH

Mount St. Joseph – St. Elizabeth (Organization) is a private nonprofit agency that serves children and families. The Daughters of Charity of St. Vincent de Paul began serving the children of San Francisco in 1852, caring for orphans who lost their parents to the cholera epidemic. In its 152-year history, its programs have developed to meet the community's challenges and changing needs. The Organization runs the Adolescent Program Services, and the Epiphany Program. The Organization receives funding from county and state agencies, with certain portions of its funding originating with the federal government. In addition, the Organization receives funding from other private sources and investment income.

Total Amount Received From the City in FY 2004-05: $926,505

Federal Funds Received From Public Health in FY 2004-05: $156,479

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. The organization 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 2,000 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 2004-05: $1,649,586

Federal Funds Received From Public Health in FY 2004-05: $ 237,807

Single Audit Findings: None

Management Letter Comments: None

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NORTH OF MARKET SENIOR SERVICES
(dba Curry Senior Center)

North of Market Senior Services (NOMSS) is a nonprofit public benefit California Corporation organized in 1973. NOMSS provides medical and social support to low income and elderly residents of San Francisco. Its programs include Office on the Aging, Community Substance Abuse Services, DPH Clinic, Community Mental Health Service, San Francisco Community Clinic Consortium, and Permanent Supportive Housing.

Total Amount Received From the City in FY 2004-05: $1,076,145

Federal Funds Received From Public Health in FY 2004-05: $ 22,917

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 2004-05: $1,054,449

Federal Funds Received From Public Health in FY 2004-05: $1,054,449

Single Audit Findings: None

Management Letter Comments:

Comment 1: Fraud Policy Communication

Condition: During the conduct of fraud-risk assessment testing, the auditor's review of related policy documents, and their inquiries revealed that assigned employees properly described their control-related duties consistent with the written procedures from which they were initially trained.

Recommendation: The initial policy-training materials should be periodically reviewed with PHFE staff, and control-related duties of employees should be assessed as part of PHFE's formal performance appraisal system, in order to maintain their constant awareness of actions required to deter and report suspicions of fraud.

Current Status: PHFE will periodically review initial policy-training materials with its staff, and will assess control-related employee duties as part of PHFE's formal performance appraisal system, in order to maintain their constant awareness of actions required to deter and support suspicions of fraud.

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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 2004-05: $2,257,739

Federal Funds Received From Public Health in FY 2004-05: $ 805,301

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 2004-05: $5,420,684

Federal Funds Received From Public Health in FY 2004-05: $ 87,097

Single Audit Findings: None

Management Letter Comments:

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.

Comment 2: Sales Tax

Condition: RAMS was late in filing the quarterly sales tax report on the sales at Café Phoenix, for the last three quarters of fiscal year 03/04. In addition, sales tax has not been charged on sales to clients. Sales to clients are not considered as internal consumption and are subject to sales tax.

Recommendation: When preparing the sales tax return, the sales tax for client sales should be added back to the tax liability. The sales tax for the three quarters totaled $3,793.

Current Status: This situation has been corrected.

RICHMOND AREA MULTI-SERVICES, INC.
(continued)

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.

Recommendation: Fiscal is only using a single-user general ledger module of the MIP system. 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 various reasons, the upgrade has not happened as of now.

Comment 5: Fiscal Department

Condition: 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.

RICHMOND AREA MULTI-SERVICES, INC.
(continued)

Comment 6: California Nonprofit Integrity Act (SB 1262)

Condition: SB 1262 is effective January 1, 2005. There are some provisions that affect RAMS and that RAMS should consider them in order to be in compliance.

Recommendation: RAMS should review the provisions of SB 1262 affecting RAMS which include: the requirement to form an audit committee if the organization receives or accrues over $2 million in a year, the requirement to provide the annual audit report to the public upon request, and the requirement that the board of directors review and approve the compensation of the president or chief executive officer and chief financial officer. SB 1262 also has many provisions that involve commercial fundraisers, which RAMS should review if such services are used.

Current Status: RAMS is currently addressing this recommendation.

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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 2004-05: $1,970,057

Federal Funds Received From Public Health in FY 2004-05: $ 376,288

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: The Society should develop a clear-cut plan for the accounting department that provides for the following:

- Assessment of the operations of the department to determine that it is appropriately staffed for the amount of work that it is expected to perform and that personnel are properly supervised and trained.
- Definite placement of responsibility and for lines of authority within the department.
- A division of duties, whenever practicable, between the authorization and record keeping so that the activities of one employee act as a check on those of another. We offer specific suggestions for the major transaction cycles of the Society in a separate set of comments addressed to the management of the Society.
- Forms, documents, and procedures that provide for controls and proper approvals.
- Monitoring for compliance with policies, procedures, and budgets.
- Periodic review of the internal control system.

The Society should also 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. Further, it should 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 reconcilations, 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.

Current Status: Not available.

Comment 2: Arlington Hotel

Condition: A formal management contract does not exist between the Society and Arlington. In addition, Arlington is not keeping current on the amount it owes the Society for managing and operating the facility and is generally four months behind in payments. The Society is essentially providing the Arlington the funds necessary to maintain its operations.

Recommendation: The Society should:

- Analyze the costs involved with performing the management functions on the Arlington's behalf to determine reasonable compensation for these services.
- 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.
- Assess whether the Arlington is capturing the entire contract and grant revenue available from grantors for the services, which it provides to its residents.
- Develop with the Arlington a repayment plan, which will bring the Arlington to a current status with the Society.
- 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: Not available.

Comment 3: By-Laws

Condition: The by-laws of the Society have not been recently updated.

Recommendation: The by-laws of the Society should be reviewed by legal counsel and updated as necessary to ensure that they are in keeping with the current activities of the Society.

ST. VINCENT DE PAUL SOCIETY
(continued)

Current Status: Not available.

Comment 4: Audit Committee and Conflict of Interest

Condition: The Society does not have a written conflict of interest policy.

Recommendation: The Society should develop a written 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 of interest that they may have. This includes identifying any conflicts that directors who serve on the board of the Arlington Hotel partnership. Auditors also recommend that the members of the Audit committee be reviewed in conjunction with the requirements of the Nonprofit Integrity Act to ensure that the Committee does not have members participating on the committee who are disqualified due to the requirements of the Act.

Current Status: Not available.

Comment 5: Cash and Investments

Condition: The Society does not have an investment policy.

Recommendation: The Society should develop an investment policy. The Society should also develop cash forecasts and a cash management policy to assist in managing both its cash and investments. The Society should also consider obtaining a line of credit to fund its operations.

Current Status: Not available.

Comment 4: Employee Expense Reimbursements

Condition: Employee expenses did not always have the proper documentation.

Recommendation: All expenses incurred should be reported on the employee's expense report with original receipts attached and approved by the appropriate department head. The Treasurer on a quarterly basis should review the executive director's expense reports.

Current Status: Not available.

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SAN FRANCISCO AIDS FOUNDATION

The San Francisco AIDS Foundation (the Foundation) was incorporated in California on March 15, 1984, as a nonprofit entity. The purpose of the Foundation is to end the pandemic and human suffering caused by HIV. The 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 2004-05: $4,936,451

Federal Funds Received From Public Health in FY 2004-05: $2,613,085

Single Audit Findings: None

Management Letter Comments: None

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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 2004-05: $319,201

Federal Funds Received From Public Health in FY 2004-05: $199,028

Single Audit Findings: None

Management Letter Comments: None

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SAN FRANCISCO FOOD BANK

The San Francisco Food Bank (Food Bank) is the largest distributor of food to low-income families and individuals in San Francisco, 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 2004-05: $650,012

Federal Funds Received From Public Health in FY 2004-05: $ 92,800

Single Audit Findings:

Finding 04-1: Emergency Food Assistance Program

Condition: The Food Bank expensed program specific grant money that it had been awarded in the current fiscal year for non-program specific expense incurred during the previous fiscal year. The amount of questioned costs related to this finding is $4,597.

Recommendation: The Food Bank should develop procedures to increase staff's awareness of requirements for use of grant money.

Current Status: In response to this finding, the Food Bank indicated that it had made a management decision to use the grant funds in the manner described, so as to "maximize the impact of the USDA funding", by taking advantage of discounted food prices. The Food Bank sent the "appropriate back-up documentation for this transaction" to the USDA.

Finding No. 04-2

Condition: Testing disclosed that four out of sixty samples of documentation from recipient agencies (i.e., agencies receiving food from the Food Bank) had no signature verifying receipt of the food commodities.

Recommendation: Establish written policies to ensure proper receipt of food.

Current Status: The Food Bank already requires its sub-recipients to complete client/recipient signature sheets, confirming receipt and distribution of products. The Food Bank will implement procedures to reinforce this policy with its drivers, so that they obtain the required signatures when they deliver the food commodities.

Management Letter Comments:

Comment 1: Timing of Site Visits:

Condition: Based upon their testing of the Food Bank's files, the auditors noted that one of the site visits to agencies (Mercy Terrace Apartments) was conducted after the two-year period required by the California Department of Social Services (CDSS).

Recommendation: Monitoring of sub-recipients through site visits should be conducted within a two-year period, as required by CDSS.

Current Status: Management closely tracks its site visits. The official biennial monitoring visit to one of its agencies was conducted two months outside the two-year window due to scheduling problems with the site. This was an isolated occurrence.

Comment 2: Review of Site Visit Reports

Condition: There is no standard procedure for staff supervisor's review of reports on agency site visits.

Recommendation: In order to ensure that site visits of sub-recipients are conducted in accordance with the requirements of the USDA, the auditors recommend that supervisors review the site visit reports.

Current Status: The Food Bank has a well-defined protocol and standard form that is used for all site visits. The details of these site visits are discussed with a supervisor and reviewed by the Director of Programs at weekly programs department meetings, as necessary.

Comment 3: Review of Quarterly Reports and On-Line Reports

Condition: There is no evidence of supervisory review of the quarterly reports of the Emergency Food Assistance Program that the Food Bank staff submits to the CDSS.

Recommendation: A supervisor or key officer should review the reports before they are submitted to government agencies.

Current Status: The Director of Programs will sign off on the quarterly reports prior to submission.

Comment 4: Approval of Purchase Order and Shipping Credit Memos

Condition: During the auditors' walkthrough of internal controls, they noted that only one person prepares and approves purchase order credit memos/shipping credit memos.

Recommendation: To ensure proper documentation in the books of account and to provide a means for the director of finance to maintain an overview of the accounting operations, all purchase and shipping credit memos should be reviewed and approved in writing by the director of finance.

Current Status: Management will establish a procedure for the director of finance and Administration to review all purchase and shipping credit memos.

Comment 5: Prenumbered Receiving Forms

Condition: The Food Bank's receiving forms are not prenumbered until the information is keyed into the system; therefore, missing or misplaced receiving forms may not be accounted for properly.

Recommendation: Receiving forms should be pre-numbered to ensure proper accountability and completeness of inventories received.

Current Status: The Food Bank will take this recommendation into consideration for future implementation.

Comment 6: Agency Agreements

Condition: The auditors noted that four agency agreements were either missing, or had not been renewed for the fiscal year under review.

Recommendation: The Food Bank should review all agency agreements to ensure that the agreements are located, properly executed and current.

Current Status: Management will ensure the Food Bank has current agency agreements on file.

Comment 7: Development of a Conflict of Interest Policy

Condition: Recently there has been an upsurge of public criticism over the way nonprofit institutions are operated. The public and the media are beginning to hold chief executives and board members to higher standards of fiduciary responsibilities. The largest concerns expressed are allegations of conflicts of interest.

Recommendation: The Food Bank should development a Conflict of Interest Policy.

Current Status: The Food Bank does have a conflict of interest policy, and in the past its auditors have sent annual confirmations to its Board members regarding conflicts of interest. Now that this is no longer part of the audit process, management will establish its own process for securing declarations of potentially conflicting interests from the Board and senior management.

Comment 8: Accounting Policies and Procedures Manual

Condition: The Food Bank has not updated its accounting manual. The lack of formal procedure may result in increased risks of errors, loss or misuse of assets, etc.

Recommendation: The Food Bank should update its accounting manual to include:

- Definitive policies for receipt of inventory including agency transactions and in-kind donations;
- Written policies on year-end physical inventory count;

- Description of reports prepared and archived;
- Written procedures for review and approval of recurring standard journal entries and monthly adjustments;
- Productive asset acquisition, retirement and depreciation guidelines (including a dollar limit for capitalization and a method of assigning amounts to donated assets.

Current Status: The Food Bank has a comprehensive accounting manual that it continually updates. Management will take a closer look at the suggested sections.

Comment 9: SAS 99-Consideration of Fraud and Inclusion to Employee Handbook

Condition: Management needs to discuss the implications of SAS 99, as it relates to the Food Bank, and ensure that the Food Bank has taken the necessary prudent steps.

Recommendation: Management should determine if the Food Bank has appropriately designed and implemented programs and controls to prevent, deter, and detect material misstatements due to fraud and continue to evaluate the potential or existence of a material misstatement due to fraud throughout the year. The Food Bank should also include provisions and policies relating to fraud in its employee handbook.

Current Status: The employee handbook already has a section on fraud; however, management will explore ways that it can be strengthened.

Prior Year Management Letter Comments:

PY Comment 1: Fixed Assets

Condition: The Food Bank could increase its controls over fixed assets with a fixed asset management software package to track and manage its fixed assets.

Recommendation: The Food Bank should invest in a fixed asset management software package to improve controls over fixed assets.

Current Status: Management is in the process of reviewing their options of purchasing a fixed asset management software package.

PY Comment 2: In-Kind Donations

Condition: The Food Bank does not communicate its in-kind donations to the accounting department in a timely manner.

Recommendation: The Food Bank should include a description of the in-kind donation, as well as an estimated dollar amount as to the value in its communication to the accounting department. Additional controls to apply include a policy statement on types of donated or contributed services as required by SFAS 116, use of forms and other procedures for the accumulation of data relating to donated or contributed services, and review and approval of the methods used and reasonableness of the valuations assigned to donated or contributed services.

Current Status: Management will continue to follow through on the implementation of these procedures for in-kind donations.

PY Comment 3: Website

Condition: The Food Bank does not periodically review with their security vendor the effectiveness of the Food Bank's internet security services.

Recommendation: The Food Bank should conduct a full systems audit or test the Food Bank's website security. It should also review vendor firewalls or security monitoring products that can handle intrusion detection. It should review with its security vendors public key infrastructure based solutions to validate business information. Finally, it should request a copy of VeriSign's Report on Internal and Systems Controls (SAS 70).

Current Status: The Food Bank has a contract with VeriSign, provider of internet security services and it is their core competency to ensure that their security is appropriate. The Food Bank will obtain and review VeriSign's SAS 70 report.

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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 2004-05: $1,024,211

Federal Funds Received From Public Health in FY 2004-05: $ 517,775

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: Shanti now uses a new general ledger system that properly reflects the expenses for each program by budgeted line item.

Prior Year Single Audit Finding:

Finding 03-1: Identification of Federal Award Information to Sub-recipients:

Condition: Shanti was not performing the procedures from Part 3 of OMB Circular A-133, which states that a pass-through entity is responsible for identifying to the sub-recipients the Federal award information and applicable compliance requirements and ensuring required audits are performed.

Recommendation: Shanti should ensure that all contracts with subrecipients on all federally awarded grants include the required disclosures.

Current Status: Shanti has ensured that all contracts with subrecipients on all federally awarded grants include disclosures of the current CFDA title, number, award names, and all relevant federal funding agencies. Compliance sections will be added to all memoranda of understanding with subrecipients that delineate both programmatic and fiscal requirements and responsibilities. Additionally, Shanti has now reviewed all subcontractors' annual audit reports, including those schedules as required by OMB Circular A-133 and has retained these in its files.

Note: The independent auditor's report for June 30, 2004 included a statement that Shanti has suffered recurring net deficiencies in net assets that raise substantial doubt about its ability to continue as a going concern. The financial statement footnotes include management's plan in regard to this statement.

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 2004-05: $254,216

Federal Funds Received From Public Health in FY 2004-05: $185,684

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 in 1974 to assist veterans, particularly Vietnam-era veterans, in their continuing transition to civilian roles: to develop and implement procedures 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 2004-05: $937,107

Federal Funds Received From Public Health in FY 2004-05: $101,091

Current Single Audit Findings: None.

Prior Year Single Audit Finding:

Finding 96-1 Transitional and Supportive Housing Programs

Condition: This finding was a reportable condition stating that the accounting personnel should be required to take annual vacation leave and their duties should be rotated to other personnel during their absence.

Recommendation: The auditor recommended that accounting personnel be required to take annual leave for a week's time and that their duties be taken over by other personnel during that time.

Current Status: The recommendation is in the process of being implemented. Meanwhile, accounting personnel are voluntarily taking leave for a minimum of one week in length during the year.

Prior Year Management Letter Comments:

PY Comment 00-1: Personnel Policies

Condition: The personnel policies manual has not been updated to contain all the current policies of the agency.

Recommendation: The personnel policies manual should be updated and distributed to all employees.

Current Status: The personnel manual has been updated and distributed to all employees.

PY Comment 00-2: Capitalization Policy

Condition: There is currently no written policy for capitalizing property and equipment expenditures.

SWORDS TO PLOWSHARES
(continued)

Recommendation: A policy should be written to indicate a dollar amount for which property and equipment purchases will be capitalized and depreciated versus expensed when purchased.

Current Status: Swords now has a capitalization policy.

PY Comment 01-2: Accounting Policies

Condition: There is no current, up-to-date accounting procedures manual.

Recommendation: The accounting procedures manual should be updated to include all procedures and accounting processes performed by the accounting department.

Current Status: Swords is still in the process of assembling its Accounting Procedures Manual.

PY Comment 01-3: Knowledge of Agency's Contracts

Condition: The accounting department was not aware of all the terms and conditions of Sword's contracts; therefore, the accounting for certain transactions did not accurately reflect the terms of the contracts.

Recommendation: The appropriate accounting personnel should be knowledgeable of the funding terms and conditions of all contracts and grants that the agency receives. To minimize the potential of reporting contract activity incorrectly, appropriate general ledger accounts should be set up upon receipt of a signed contract.

Current Status: This recommendation has been implemented.

PY Comment 01-6: Timely Posting of Transactions

Condition: Transactions recorded by a property manager for the Academy Program were not posted or reviewed by the accounting department in a timely manner.

Recommendation: The property management company should review each monthly statement that it receives and post it to the general ledger. Also, copies of supporting documentation should be submitted to verify transactions.

Current Status: This recommendation has been implemented.

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: Swords has not yet implemented this recommendation. *See note, below.*

<u>*Note:*</u> We have determined that this finding affects Swords' contract with the federal government and does not involve any of its contracts with the City. No exception is noted.

<u>*PY Comment 02-1: Endowment Fund*</u>

Condition: There is no one at Swords with a complete understanding of the restrictions on the funds received as a result of the fundraising efforts for the Endowment Fund.

Recommendation: The accounting department should review the solicitations and funds received for each solicitation to determine which funds were received to comprise the Endowment Fund and which funds were received to support the efforts of building the Endowment Fund. Fit necessary, legal advice should be sought to determine whether the solicitations sent, that were seeking funds to comprise the Endowment Fund, constitute solicitations for permanently restricted funds.

Current Status: This recommendation has been implemented since the time of the audit.

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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 2004-05 $588,855

Federal Funds Received From Public Health in FY 2004-05: $523,215

Single Audit Findings: None

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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URBAN INDIAN HEALTH BOARD, INC.

Urban Indian Health Board, Inc. (Health Board) operates medical and dental clinics in Oakland and San Francisco. The Health Board provides medical care, dental treatment, mental health, counseling and social services and youth services. Revenues are generated primarily from government grants, contracts and third party medical insurance.

Total Amount Received From the City in FY 2004-05: $4,644

Federal Funds Received From Public Health in FY 2004-05: $4,644

Single Audit Findings: None

Management Letter Comments: None

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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. governmental organizations.

Total Amount Received From the City in FY 2004-05: $9,724,204

Federal Funds Received From Public Health in FY 2004-05: $1,912,273

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 2004-05: $10,613,166

Federal Funds Received From Public Health in FY 2004-05: $ 444,662

Single Audit Findings: None

Management Letter Comments: None

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YOUNG MEN'S CHRISTIAN ASSOCIATION OF SAN FRANCISCO

The Young Men's Christian Association of San Francisco (YMCA) is a not for profit organization founded in 1853, serving a diverse and socio-economically mixed population through its branches in San Francisco, Marin, San Mateo and Solano Counties. The YMCA's 15 branches reach people of all ages through programs and services, including youth counseling, child care, camping, health and fitness, family and senior activities, tutorial programs and community development. The YMCA builds strong kids, strong families, and strong communities.

Total Amount Received From the City in FY 2004-05: $3,771,788

Federal Funds Received From Public Health in FY 2004-05: $ 254,854

Single Audit Findings: None

Management Letter Comments:

Comment 1: Investment Schedule & Reconciliation:

Condition: There is no evidence that a timely review of the Investment Schedule and Reconciliation is occurring.

Recommendation: Management performs a quarterly review and analysis of the Investment Schedule and Reconciliation, but needs to have a formal sign-off procedure in place for this review.

Current Status: Not available.

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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 audit scope section of this report.

Staff: Elisa Sullivan, Audit Manager
Edvida Moore

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