Nassau County
Office of the Comptroller
Field Audit Bureau

Limited Review of the North Shore Child & Family Guidance Center

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NASSAU COUNTY
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EXECUTIVE SUMMARY

Background

North Shore Child & Family Guidance Center ("the Agency"), founded in 1953, is a not-for-profit children's mental health agency that provides mental health services for children, youth and families, regardless of income. Its staff, comprised of social workers, psychologists, psychiatrists, and alcohol and drug counselors, offers individual, group and family therapy, substance abuse treatment, as well as advocacy and case management services.

The Agency provides services to Nassau County under seven cost reimbursement contracts with four county departments: Mental Health, Drug & Alcohol, Health, and the Youth Board. In addition, the Agency receives state grants, program service fees, donations from individuals, corporations and foundations, and proceeds from fund-raising drives.

The Agency reported total receipts of approximately $8.7 million in 2003 and $8.0 million in 2004. The Agency spent approximately $8.4 million in each of these years, resulting in an increase in net assets of approximately $300,000 in 2003 and a decrease in net assets of approximately $400,000 in 2004. Payroll costs accounted for approximately 79% of reported annual total expenses. The Agency reported net assets of $4.1 million and $3.7 million in 2003 and 2004 respectively, of which approximately 48% was reported as unrestricted each year.

County payments to the Agency averaged $2.2 million each year, representing a yearly average of approximately 26% of the Agency's reported annual receipts. Other primary sources of revenue were program service fees averaging $3 million each year, accounting for an average of 36% of the Agency's annual receipts, and contributions, averaging $2 million or 24% of receipts.

Audit Scope, Objective and Methodology

We conducted a limited review and financial audit of programs funded by Nassau County for the period January 1, 2003 through June 30, 2005. Our objective was to examine the Agency's compliance with the terms of its contracts with the County. We reviewed policies and procedures and interviewed managers and staff to obtain an understanding of the Agency's operating and financial practices, and internal controls. We examined and assessed the reliability of the Agency's basic financial and accounting controls for cash disbursements, payroll, bank reconciliations, revenue and cash receipts. We reviewed documentation in support of transactions recorded in the Agency's operating records and claimed as reimbursable from the county, on a test basis. Amounts claimed for reimbursement from the county were traced to supporting documentation, including payroll, time and attendance records, contracts, bills and invoices, and income reported by the Agency.

Summary of Significant Findings:

Inadequate Internal Controls and Lax Oversight Led to Fraud

The Agency lacked sufficient internal controls to prevent employee theft. During a five-month period from September 2003 to January 2004 the Agency was the victim of three frauds, committed by employees. Two instances, amounting to theft of $70,825, involved payroll and operating disbursements and were immediately reported to the police, as is proper. Both frauds were made possible due to lack of oversight and the failure to properly segregate incompatible functions. The opportunity to commit the payroll fraud was enabled by the failure to review the ADP payroll change report that accompanied every biweekly payroll. The opportunity to commit the cash disbursements fraud was also enabled by the failure to safeguard check stock and the board president's signature stamp; prohibit the signing of blank checks or to label voided checks as v*oid.* In addition, the Agency's policy requiring two signatures on every check was circumvented.

The Agency's controller was aware of another fraud involving two instances of cash deposit theft but did not report the thefts to the authorities. The controller did not investigate if there were other instances where cash deposits were missing, or notify the insurance company for possible recovery, or advise the audit team of this at the beginning of the audit. We were told that this fraud was believed to have been committed by the same persons who committed the other two frauds. No steps were taken by the Agency to determine the accuracy of this belief or whether there may have been other instances of missing deposit monies. In addition, we found that the Agency made a questionable write-off (amounting to $11,962) of cash receipts that were missing during the same timeframe that the frauds occurred.

After the frauds were discovered, some corrective steps were taken to strengthen the weak controls within the office but, as of the spring of 2007, the internal control weaknesses that created the Agency's vulnerability to fraud had not been fully corrected. The Agency still lacked a written set of policies and procedures, a code of ethics, appropriate segregation of duties and adequate oversight of the accounting and payroll procedures.

Allocation of Expenses

Salaries were not properly allocated to program work actually being performed. Some employees who worked on multiple programs had their salaries charged entirely to county-funded programs. The Agency charged the county for expenses incurred on behalf of non-county sponsored programs and did not apply a consistent approach to expense allocation among programs. The Agency allocated shared costs, such as rent and utilities, according to the square footage occupied by each program in each location; however the supporting documentation needed to verify the accuracy of the allocation was discarded. In addition, we found that the Agency's accounting department manually allocated certain shared costs, overriding percentages coded in the accounting system.

Employee Screening

The Agency did not have a process in place to ensure its compliance with *New York State Social Service Law §424* to guarantee that its employees are not the subject of a report of child abuse or maltreatment on file with the Statewide Central Register of Child Abuse and Maltreatment. Initial audit tests of 26 employees found that the Agency did not obtain clearance for three of the 17 employees who required clearance by the New York State Central Register of Child Abuse and Maltreatment. The test was subsequently expanded to a review of all 74 employees working directly with children and clearances were not found for an additional four employees. The Agency was advised by the auditors to immediately submit applications to the *New York State Central Register of Child Abuse and Maltreatment* for clearance of the employees and to provide supervision when the employees are with children until the criminal history record check has been completed and all required documentation for compliance with state law was secured.

Employee Time and Leave

Internal controls over employee time and leave usage were inadequate and the Agency did not enforce its own time and leave policy. Employee requests for leave were not checked against availability before being approved and records of leave balances were only prepared at year-end for the financial statements. Some employees used more leave than they had accrued, resulting in over billing of $9,215 to the county for unearned vacation and personal leave for 2003 and 2004.

Bank Reconciliations

The December 31, 2003 bank reconciliation was not performed until December 21, 2004 and the general ledger was not maintained on an up-to-date basis. The bank reconciliation had numerous pages of un-reconciled items dating back to January 2003 that were unrecorded in the general ledger, including substantial Agency deposits and credit card receipts. Our review of the 2003 year-end bank reconciliation revealed that the Agency wrote off $11,962 of missing cash receipts that were recorded on the books but never appeared on the bank statements. In addition, the initial reconciliations provided by the Agency were not signed nor dated by the preparer, and there was no evidence of a review or approval by a supervisor. This condition persisted because of a lack of oversight by the controller, who was unaware that the general ledger had not been updated and that reconciling items were unresolved. If the general ledger is not current or is unreliable, critical decisions made on behalf of the Agency may be flawed.

Revenue Reporting

We found that the revenue amounts reported on the monthly claims to the county, certified by the Agency, were unsupported and were lower than the revenue amounts shown in the monthly general ledger. Compounding the misstatement, the monthly general ledger under recorded revenues because cash receipts were not recorded timely. Once the Agency received all monies allowed per its contracts (around year-end), it filed a supplement to its final claim to report the remainder of its revenue and expenses. As a result, Nassau County effectively advanced funds to the Agency over and above the advances provided for in its county contracts.

Improper Accounting Practices

We found that certain 2002 year-end accruals were not posted to the general ledger until October 2003 and two of them, totaling $156,655 were incorrectly posted to a county-funded revenue account. When reversed, they were then posted to a non-county funded account. This resulted in an overstatement of revenues in a county-funded account and an understatement of revenues in a non-county funded account.

The Agency charged certain employees' pension expense to a county-funded program. It later received a $7,297 pension refund but incorrectly credited it to a non-county unrestricted revenue account instead of the account that was originally charged. To compensate for the error, the controller claimed that she excluded pension expenses on the October and November claims for the related programs. We requested, but were not provided with, documentation to support the Agency's statement that the credit to the county was equal to the pension refund due to the county.

Inappropriate Charges

We found that non-reimbursable expenses (such as sales tax and late charges) were inappropriately charged by the Agency to county contracts. Sales tax and late charges are not reimbursable by the county. In addition, non-union employees contribute, in some cases, as much as 10% of the cost of their health coverage, but the Agency used the full premium amount as the basis for its claims against the county. This resulted in an estimated $5,347 overcharge to the county in 2003.

Failure to Properly Report Information to the IRS

The Agency did not comply with IRS regulations nor have a process in place to ensure that 1099s were prepared for individuals paid in excess of $600 for services.

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The matters covered in this report have been discussed with officials of the Agency during this audit. On August 21, 2007, we submitted a draft report to the Agency with a request for comments. The Agency's comments, received on October 24, 2007, are included as an addendum to this report (Appendix I).

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Audit Finding (1):

Inadequate Internal Control Environment and Lax Oversight Led to Fraud

The Agency lacked sufficient internal controls to prevent fraud from occurring. The Agency controller informed us that, during a five-month period from September 2003 to January 2004 the Agency was the victim of two frauds, committed by employees, amounting to $70,825. Both frauds involved payroll and operating disbursements and were immediately reported to the police, as is proper. The Agency elected to investigate the frauds internally rather than engage an external forensic auditor. The two frauds were investigated by the Agency's controller and the assistant to the Executive Director.

We also learned of a third irregularity involving cash receipts that the audit team was not made aware of at the beginning of the audit. We discussed this irregularity with the controller and were told that it was believed to have been committed by the same persons who committed the other two frauds, and that it only involved two dates. No steps were taken by the Agency to determine the accuracy of this belief or to determine whether there may have been other instances of missing deposit monies. In addition, we found that the Agency made a questionable write-off (amounting to $11,962) for cash receipts that were missing during the same timeframe that the frauds occurred. We uncovered this write-off on October 29, 2007, the date the Agency provided us with the disposition of their 2003 reconciling items (see Bank Reconciliation Finding 5, page 13). The controller did not report the missing monies to the police or to the Agency's insurance company for possible recovery. While the Agency stated that the Board was made aware of the missing cash, the audit team found no evidence in the Board minutes indicating that the Board was notified.

While the Agency eventually detected the frauds, it did not have the appropriate internal controls in place to prevent the frauds from occurring or to detect the frauds at an earlier time. Specifically, the Agency did not have:

- written operating policies and procedures for all key functions including:
  - payroll
  - time and leave
  - cash receipts
  - cash disbursements
  - bank reconciliations
  - allocation of salary and other expenses to programs
  - employee hiring and screening;
- a code of ethics to guide employees, other than those involved in client-therapist relationships, in making appropriate decisions, deter and report wrongdoing and encourage honest and ethical conduct;
- adequate Board and supervisory oversight;

- adequate segregation of duties;
- assignment of compatible responsibilities;
- written job descriptions; and
- adequate cross training.

Segregation of duties is intended to prevent or detect unauthorized transactions or fraudulent activity. No one person should have control over all phases of a transaction. Concentrating key duties with one individual weakens internal controls and significantly increases the risk that errors and irregularities might occur and go undetected and uncorrected in a timely manner. For each of the major accounting functions (cash receipts, cash disbursements and payroll), duties such as authorization, recordkeeping and custody, were given to one individual.

As mentioned, incompatible responsibilities were assigned. For example, the payroll clerk was also responsible for posting cash receipts and cash disbursements to the general ledger giving her access to the two areas where the fraud was committed. No one employee should have access to all of the cash functions.

The Agency relied on its 28 hour a week part time controller to oversee the accounting and management functions of the Agency. In addition to being the overseer of the accounting operations, the controller prepared the Agency's annual budget, the annual Consolidated Financial Report, financial information for the board, and adjusting journal entries. She also oversaw the implementation of a new electronic billing system. Due to her concentration on this operational initiative, the controller informed us that the associate controller was given primary, direct and unsupervised responsibility for the day-to-day accounting functions.

During the audit period the Agency experienced high turnover in the accounting department, including replacement of three accounting supervisors, three staff accountants and two payroll clerks.

After the frauds were discovered, some corrective steps were taken to strengthen the weak controls within the office but, as of the spring of 2007, the internal control weaknesses that created the Agency's vulnerability to fraud had not been fully corrected. The Agency still lacked a written set of policies and procedures, a code of ethics, appropriate segregation of duties and adequate oversight of the accounting and payroll procedures.

Payroll Fraud

The Agency's bi-weekly payroll was processed electronically through ADP. The payroll clerk was located in the accounting office. One person performed all payroll duties including entering employee information into ADP, changing payroll status and rates, receiving ADP reports, adjusting salaries, processing direct deposits, and distributing paychecks. Checks were automatically issued for full time employees while hourly employees were paid based on timesheets approved by a supervisor.

During a three month period, October to December 2003, the Agency fell victim to a scheme in which phantom employees were placed on the Agency's payroll to generate pay checks which were cashed with forged endorsements by the two culprits. As a result, 21 fraudulent payroll checks, totaling $44,825, were issued by the payroll clerk to persons not employed at the Agency. The fraud was made possible by the failure to review the ADP payroll change report that accompanied every biweekly payroll. If this report had been reviewed, the existence of the phantom employee records would have been detected much sooner, possibly before the first payroll was issued. Had there been some oversight of the associate controller's work, the controller would have realized that the reports were not being reviewed. The fraud was eventually detected by the Controller as a result of the Agency's budget process, at which time the Agency chose to perform an internal investigation and notify the authorities.

In addition, we found that more than two years after the payroll thefts were originally detected only two corrective actions were implemented by the Agency: they instituted a managerial review of the ADP payroll change report (although ADP issues various other payroll transaction reports, they are not reviewed by the Agency) and the Agency moved the payroll function out of the accounting office. The Agency had not:

- developed any written policies and procedures for the payroll function;
- instituted segregation of duties so that more than one employee was required to complete the payroll process;
- required a supervisory certification of each bi-weekly payroll.

In addition, after the fraud was uncovered, the Agency exacerbated its failure to segregate duties by giving all responsibilities for processing payroll to the Executive Director's assistant. This same individual was also responsible for maintaining employee personnel documentation, recording leave accruals and usage, reviewing check requests, purchasing, cost allocations and posting journal entries to the general ledger. This extensive assignment of duties represents an example where incompatible responsibilities still exists.

Cash Disbursements Fraud

The controller informed us that during the same time that the payroll fraud was perpetrated, thefts from the Agency's operating account, totaling approximately $26,000, had also occurred. These thefts, detected as a result of the Agency's discovery and follow-up of the payroll fraud, resulted from the use of:

- two checks, totaling $6,500, signed in blank by the executive director;
- one stolen operating account check, approximately $19,500, which was not properly voided; it also had a forged signature and the authorized check signer's signature stamp was misused.

There was a lack of proper controls to safeguard checks and, as a result, employees were able to use them for fraudulent disbursement. In addition to the checks not being properly protected and secured, voided checks were not labeled as *void*; thus making those available for misuse.

The Agency's bylaws provide: "two (2) signatories shall be required on all checks above $500"[1]; however, the agency's controller indicated that this amount should read "$5,000." Nevertheless, the improper safeguarding of the board president's signature stamp circumvented the internal control requiring two signatures. An employee stole approximately $19,500 from the Agency by using the signature stamp and forging the executive director's signature. The use of signature stamps, rather than manual signatures, increases the risk that fraudulent checks may be issued. In addition, as noted in Audit Finding 5, the Agency did not reconcile its bank accounts timely and had, at least, a monthly reconciliation been performed, the theft might have been detected sooner.

We also found evidence that the two-signature policy was not applied consistently. While reviewing the October through December 2003 bank statements (the period during which the fraud occurred), it was found that four checks, each in excess of $5,000, had only one signature. The total of these checks, made payable to various payees, amounted to approximately $100,000. An additional check, for approximately $1,000, had no signatures at all, but was honored by the bank.

None of the payroll fraud or the cash disbursement fraud was claimed to county programs. However, County taxpayers did pay more because of another possible fraud involving missing cash receipts.

<u>Failure to Report Client Cash Receipt Fraud</u>

Client payments were recorded on a daily transaction sheet by the receptionist when client receipts were issued. At the end of the day, the receptionist completed a bank deposit for the total amount of the cash receipts and delivered it to accounting for safekeeping and deposit.

We selected one month for each year of the audit period to test for the proper reporting of cash receipts from clients. During this test we traced, from the daily transaction sheets to the bank statement, a total of 243 deposits (amounting to $46,416) for all three locations of the Mental Health Clinic and Drug & Alcohol programs. Our audit tests revealed two instances of missing deposit monies in our test sample for the Roslyn Mental Health Clinic: on November 12, 2003, the clinic collected $387.50 ($260 in checks and $127.50 in currency) and only the checks were deposited; on November 18, 2003, the clinic collected $642.50 and the entire deposit was missing from the bank statement. Additional testing of the October 2003 cash receipts for the Roslyn Mental Health Clinic

[1] Bylaws of North Shore Child and Family Guidance Association, Inc., Article XII – Execution of Instruments, Deposits and Funds, Section 2. Checks and Notes.

was performed. This included reviewing 22 deposits totaling $8,667 and all were posted to the bank statement.

The controller did not advise the audit team of the missing deposits at the commencement of the audit. It was not until after the exceptions were uncovered during our testing that the controller informed us that, in the fall of 2003, she was made aware of missing cash from the November 12, 2003 deposit by the bank and by one of the culpable employees involved in the other two frauds. The controller did not report the missing monies to the police or to the Agency's insurance company for possible recovery. While the Agency stated that the Board was made aware of the missing cash, the audit team found no evidence of this in the Board minutes. The controller informed the audit team that she believed the same persons who committed the other two frauds were responsible for the missing cash; however no steps were taken by the Agency to determine the accuracy of this belief or if there may have been other instances where deposit monies were missing. As previously mentioned, we found that the Agency made a questionable write-off (amounting to $11,962) for cash receipts that were missing during the same timeframe that the frauds occurred. We uncovered this write-off on October 29, 2007, the date that the Agency provided us the disposition of their 2003 reconciling items (see Bank Reconciliation Finding 5, page 13).

Missing cash receipts directly affect Nassau County because the county reimburses a portion of mental health program costs, net of program revenues. Revenues posted to the general ledger are reported on the county claim to offset expenses as per the county contract. In 2003, the county reimbursed 61.5% of mental health program costs, net of program revenues, and the county's share of the $770 missing cash receipts noted in this comment was $473.55.

Further, the management representation letter for the year-ended 2003 issued to the agency's external auditors by the Agency and signed by the Controller and the Executive Director did not disclose the payroll and operating account frauds or the missing cash deposits. This letter, dated February, 2005, incorrectly stated that the Agency had no knowledge of any allegations of fraud or suspected any fraud affecting the entity. The frauds impacting the 2003 financial statements had, in fact, been detected in November 2003 and in January 2004 – more than a year prior to the issuance of the management representation letter.

Our review of the controls over 83 cash receipts at the Roslyn location revealed the following weaknesses:

- A poor segregation of duties over processing cash receipts existed in the Roslyn accounting department, the site where the frauds occurred. The accounts payable supervisor, hired in January 2004, collected all cash receipts, made bank deposits, recorded the bank deposits in the general ledger, reconciled the bank account, paid bills, and was responsible for safeguarding the board president's signature stamp. The controller informed us that the accounts payable supervisor was supposed to compare the deposit slips to the cash collected, as listed on the transaction sheets, and had this review and comparison taken place, the missing monies could have been detected on a timely basis.

- The Agency used pre-numbered receipts; however receipt books were not unique to each location. When a new receipt book was issued, no effort was made to ensure continuity in the receipt number sequence. Consequently, there were breaks in the sequences which made it difficult to account for all the receipts.
- Five receipt numbers were listed twice on the daily transaction sheet even though each receipt should have been uniquely numbered.
- There were 26 voided receipts; however, nine of them were not retained;
- On nine daily transaction sheets, receipt numbers were skipped or not in consecutive order.
- Three receipt numbers on one daily transaction sheet did not match the copy of the actual receipt.
- Clients' checks were frequently stamped with the agency's name on the payee line. We were informed by the Westbury location's office manager that the Agency requested that clients not complete the payee section of the check so that the Agency could stamp its name on the payee line. Our review showed that this was the practice at all three agency locations, which created the opportunity for fraud by allowing an employee to make a blank check payable to the employee, or to a third party.

The Westbury location deposited its receipts every two weeks. Failure to deposit cash on a timely basis greatly increases the risk of theft.

<u>Audit Recommendations:</u>

The Agency should, with regard to**:**

<u>Inadequate Internal Controls Environment and Lax Oversight Led to Fraud</u>

a) consider hiring an independent forensic firm to examine the books and records of the Agency to determine if the full impact of the frauds has been identified;
b) develop a code of ethics, including the protocol for reporting missing funds, suspected fraud, and/or inappropriate conduct;
c) disclose fraud and allegations of wrongdoings to the external auditors in its management representation letter;
d) adopt written operating policies and procedures for all key functions;
e) review its personnel practices and staffing levels to ensure that the financial function is adequately staffed and managed, incompatible functions are properly segregated, and that key employees are supervised;
f) consider employing a full time controller;
g) ensure that all work performed is signed and dated by the preparer and the reviewer as a means to control and oversee work performance and to aid in the detection and prevention of errors and fraud; and,
h) consider hiring an internal controls specialist to assist in developing an adequate internal controls system.

Payroll Fraud

a) require that all the payroll reports provided by ADP are formally reviewed on a regular basis by management and document what the review procedures entail, including how exceptions or unusual items are resolved; and
b) require a manager to certify the accuracy of each biweekly payroll.

Cash Disbursements Fraud

a) determine whether $5,000 is the appropriate threshold for requiring two signatures on checks and, if so, change the bylaws;
b) comply with the bylaws;
c) discontinue the use of the signature stamp and require all checks to be signed manually;
d) mandate that the board president and the Executive Director review all disbursements, requiring a second signature, for proper supporting documentation; and
e) adopt controls to properly safeguard checks and label voided checks as *void*.

Cash Receipts Fraud

a) reimburse the county $473.55 for its share of the $770 stolen related to the audit sample test;
b) perform a thorough audit of cash receipts to determine if any other revenues were missing and/or stolen:
c) require an employee, other than the employee managing the cash function, to reconcile daily transaction sheets to validated bank deposits as a way to ensure that all fee income has been deposited;
d) establish procedures to ensure that cash receipts are issued in numerical order and voided receipts are labeled as *void* and retained;
e) implement a process to clearly distinguish client cash receipt forms for each location and program;
f) mandate that bank deposits be kept under lock and key and made on a minimum frequency of every five business days; and
g) eliminate the use of the payee stamp and require clients to submit checks with the name of the payee already filled in.

Audit Finding (2):

Allocation of Expenses

The *Federal Office of Management and Budget Circular A-122* establishes cost principles for nonprofit organizations. It requires that costs, which cannot be directly attributed to programs, be allocated to programs by some reasonable basis. The basis for these allocations should be documented and the county's contract with the Agency requires the Agency to retain such records for audit for a period of six years.

Allocation of Salary Expense

The Agency allocated salaries according to the number of hours each employee was assigned to work in the individual programs. The allocation was entered into the ADP system and automatically calculated on ADP reports. We found salaries were not properly allocated to program work actually being performed.

The Agency charged county-funded programs for salary expenses incurred on behalf of other programs, both county- and non-county funded. Salary allocations for 17 employees were tested. The test included interviewing five employees at the Roslyn location regarding business procedures and reviewing salary allocations for 12 employees who work at the Manhasset location. We found that during June 2005:

- the assistant bookkeeper at the Roslyn location performed billing functions for the Mental Health and Drug & Alcohol programs yet the assistant bookkeeper's *entire* salary was allocated to the Drug & Alcohol program.
- the Manhasset location's secretary/receptionist performed services for all programs at the Manhasset location yet the secretary/receptionist's entire salary was allocated to the Nassau County Mental Health contract. Other programs at the location were funded by New York State Office of Mental Retardation and Developmental Disabilities, New York State Office of Children and Family Services, Head Start, and private contributions.

Allocation of Shared Expenses

The Agency allocated shared costs, such as rent and utilities, according to the square footage occupied by each program in each location and the appropriate percentages were entered into the accounting system.

We requested the supporting documentation in order to verify the accuracy of the allocation; however it was not made available for the audit period. According to the controller, the allocation was revised and then discarded after the change.

In addition, we found that the agency's accounting department manually allocated certain shared costs, overriding the percentages coded in the accounting system. For the month of March 2004, we reviewed all 51 invoices claimed under county contracts and found that two $420 invoices, paid for snow removal, were for all the locations. The first was correctly allocated 9% to Drug & Alcohol, 29% to Clinic Treatment and 3% to Community Reinvestment. The second invoice was incorrectly allocated 15% to Drug & Alcohol, 32% to Clinic Treatment and 3% to Community Reinvestment. Expense allocations should have had a rational basis and been consistently applied.

Also in March 2004, the agency received a duplicate invoice for copy machine usage, which was later voided in the general ledger. The first invoice was posted in the general ledger to a non-county program. The duplicate invoice, however, was claimed to two county programs in the amount of $318.50 and the agency did not reimburse or credit the county for the duplicate amount.

For the month of November 2003, we reviewed all 42 invoices submitted under county contracts and also found inconsistencies. The agency's allocation plan for expenses related to the Westbury location showed that 41% of expenses should have been allocated to the Drug & Alcohol program, however:

- a $300 alarm monitoring contact payment was 100% billed to Drug & Alcohol;
- a $1,100 cleaning contract payment was billed 51% to Drug & Alcohol.

This resulted in Drug & Alcohol being over billed by $287.

Audit Recommendations:

The Agency should:

a) allocate employee salaries based on work actually performed, with the programs that receive the services being charged a proportionate share of the salary expense; other expenses should be allocated on a rational basis, consistently applied;
b) use the shared costs allocation percentages coded in the accounting system and establish clear guidelines explaining when manual intervention to override the accounting system is necessary; the appropriate manual procedures to be followed should be documented;
c) prepare an analysis showing the allocation of:
   - the salaries and benefits for the assistant bookkeeper and secretary/ receptionist;
   - payments for alarm monitoring, snow removal and cleaning for the audit period;
d) submit the analysis to Nassau County for its review along with a reimbursement of the overcharges;
e) reimburse the county for all overcharges including staff salaries, services and equipment that should not have been billed 100% to the county; and
f) retain, for six years, supporting documentation for allocation of expenses and make the documentation available to the auditors upon their request.

Audit Finding (3):

Employee Screening

New York State Social Service Law §424-a requires that agency employees having the potential for regular and substantial contact with children obtain clearance from the *New York State Central Register of Child Abuse and Maltreatment* stating whether or not the employees are the subject of a report of child abuse or maltreatment. Such employees may work with children, pending the completion of the criminal history record check, but must be supervised when they are with the children.

The Agency obtained clearances by submitting an application, signed by the employee, to the *New York State Central Register of Child Abuse and Maltreatment*. We found that the Agency did not have a process in place to ensure that all required applications are filed and that proper clearance is obtained.

Our review determined that, in 2005, the Agency billed 76 of its 142 employees to various county contracts. We reviewed the personnel files for 26 of the 76 employees for the *New York State Child Abuse Registry Clearance*. Of the 26 employees tested, we determined that 17 employees had regular contact with children in performing their duties and, of those 17 employees, we were unable to confirm if three of them were cleared through the *New York State Central Register of Child Abuse and Maltreatment*. The Agency was unaware that the clearances had not been obtained and took the appropriate steps to submit the applications. Prior to the end of our field work, two of the three clearances originally missing were secured.

Due to the severity of this violation of state law, the auditors returned in November 2006 to perform additional testing and determined that, at that time, 74 employees agency-wide were working directly with children. The personnel files for all 74 employees were reviewed for the appropriate state clearance and clearances were not found for an additional four employees. At that time, the Agency was advised by the auditors to immediately submit applications to the *New York State Central Register of Child Abuse and Maltreatment* for clearance of the five employees and to provide supervision when the five employees are with children. Such supervision should remain in place until the criminal history record check has been completed and all required documentation for compliance with state law was secured.

Audit Recommendations:

The Agency should establish procedures to make certain that its employee files are complete and contain all required clearances. A checklist of all required clearance elements should be developed and included in each employee's personnel file and it should be reviewed and signed off by agency management before the employee begins work.

Audit Finding (4):

Employee Time and Leave

The Agency's *Code of Personnel Practices* states that "Vacation with pay can only be taken for time earned and recorded." We found that the Agency did not enforce this policy. Employee requests for leave are not checked against leave availability before being approved and a record of leave balances was not maintained on an up-to-date basis. In addition, there was no evidence on the vacation request forms that leave was denied when leave balances were not available.

Our review disclosed that employees were paid for time not worked when no leave entitlements were available. This expense was passed on to the County through various county contracts and resulted in the county being overcharged.

We reviewed the 2003 and 2004 leave accruals for all agency employees, totaling 115 and 133 employees respectively, and found the following:

Negative Vacation and/or Personal Leave Balances

- At year end 2003, 20 employees agency-wide were paid for vacation and/or personal leave not accrued, totaling $3,546. Of the 20 employees, ten were billed to County contracts and the County reimbursed the Agency a total of $1,188 in unearned salaries and employer FICA.
- At year end 2004, 25 employees agency-wide were paid for vacation and/or personal leave not accrued, totaling $8,548. Of the 25 employees, 11 were billed to County contracts in the amount of $5,988.

In 2003 and 2004, the County reimbursed the Agency a total of $7,176 in unearned salaries and employer FICA for unearned vacation and/or personal leave usage.

In addition, we found two occasions where one employee's supervisor requested that the employee be docked for using vacation time that was not available.

- This employee used 36 ½ hours of vacation time during September 2003 that he had not earned. He subsequently earned 16 ½ hours that were charged against the previously used vacation. The balance was to be posted as *leave without pay* and deducted from his next pay check. We requested, but were not provided with, any evidence that the time was deducted from his pay check.
- During December 2003 the same employee took an additional 23½ hours leave without pay. We requested, but were not provided with, any evidence that the time was deducted from the employee's paycheck.
- Percentages of the employee's salary were allocated to three county programs; we computed an overpayment by the County of $2,039, including employer FICA, for his unearned compensation.

On January 24, 2006, we requested leave balances for year end 2005 and were advised that the accruals were not complete for vacation and personal time. Leave balances are not maintained on an up-to-date basis during the year and are only addressed at year end when the leave accrual is prepared for the financial statements.

Audit Recommendations:

The Agency should:

a) reimburse the county $9,215, which includes $7,176 in unearned salaries and employer FICA, for unearned vacation and/or personal leave usage in 2003 and 2004, and the $2,039 that was not docked to the employee in 2003; and
b) develop procedures to record and track leave accruals and usage on a timely basis so that leave availability can be determined at the time the leave request is submitted for approval. Time taken as leave should not be paid when leave has not been earned.

Audit Finding (5):

Bank Reconciliations

Bank reconciliations are an important part of cash control procedures and should be performed timely (within 30 days of receipt of bank statements) so that the Agency can verify the amount of cash it has in each bank account and to ensure that the accounting ledgers reflect all cash transactions. Bank reconciliations should be performed by an employee who has no responsibility for recording cash transactions or access to cash; they should be signed and dated by the preparer and then reviewed and approved by a supervisor.

The agency's controller informed the auditors that the Agency had not maintained its general ledger on an up-to-date basis in 2003. Income and disbursements were not recorded in the general ledger on a timely basis. When we reviewed the bank reconciliations, we found that the reconciling items for 2003 were not posted to the 2003 general ledger until 2004. As of October 31, 2003, the general ledger showed a negative cash balance of $139,252. In addition, the reconciliations reviewed were not signed nor dated by the preparer, and there was no evidence of review or approval by a supervisor.

We reviewed the October 31, 2003 bank reconciliation and noted that it included a six-page list consisting of 310 reconciling items accumulated over a ten-month period. The net variance between the bank balance and the general ledger of $307,127 consisted of income of $498,532 and disbursements of $191,405 that were not posted to the agency's general ledger. These items included agency deposits, bank charges, returned deposits, and credit card receipts not booked by the Agency. A significant number of these transactions were large, such as an incoming wire transfer of $125,000 from an outside entity in April 2003, a $100,000 note payment in May 2003 and a $53,232 deposit in August 2003. This was a result of the lack of oversight of the preparation of the bank reconciliations and the resolution of reconciling items.

On October 29, 2007, the Agency provided the auditors with the year-end bank reconciliation for December 31, 2003, which was not prepared until December 21, 2004. This was provided to us in lieu of our original request for an analysis showing the proper disposition of the unrecorded receipts to ensure that the county was given credit for all program revenues. Our review of the 2003 year-end bank reconciliation revealed that the Agency wrote off $11,962 of missing cash receipts that were recorded on the books but never appeared on the bank statements; this bank reconciliation showed these as *deposits in transit*. The Agency did not follow up to determine what happened to the deposits prior to the write off. The majority of the missing deposits were dated between September 15, 2003 and October 7, 2003 which coincides with the timeframe in which the frauds occurred. The fact that these missing deposits occurred during the same timeframe as the other frauds, and were written off 12 months after the deposits were to have been allegedly made, further supports our recommendation that the Agency consider hiring an independent forensics firm to determine if the full impact of the frauds has been identified.

The auditors were told by the controller that the reason the general ledger was not kept up-to-date was that the controller had assigned this responsibility to the associate controller who failed to perform this function. Further, the reason given for why this situation was allowed to persist for nearly the entire fiscal year was that the controller was not overseeing the associate controller function and was not aware that the general ledger had not been updated. The controller also advised that there was no follow up performed to reconcile the missing deposits because the Agency was too busy trying to update the general ledger and close the books for 2003 and 2004. The controller is the chief accountant and is the person most responsible for ensuring the accuracy and reliability of the accounting records. If the general ledger is not current or is unreliable, critical decisions made on behalf of the Agency may be flawed (see Audit Finding #7).

Audit Recommendations:

The Agency should:

a) ensure that all transactions are posted to the general ledger and reconciled to the bank statement on a timely basis;
b) reconcile bank accounts and resolve reconciling items timely;
c) ensure that the individual responsible for performing the monthly bank reconciliation does not have access to, or responsibility for, cash;
d) require the preparer to sign and date the reconciliation;
e) ensure that a supervisor reviews the reconciliation, and that the review is evidenced by the supervisor signing and dating the reconciliation; and
f) perform a thorough analysis to explain the $11,962 write off and reimburse the county, if appropriate, and ensure that the county is given credit for all program revenues. This analysis should be sent to Nassau County for its review.

Audit Finding (6):

Revenue Reporting

Three of the agency’s contracts with Nassau County require the Agency to report revenues and net them against expenses to determine the reimbursement amount. These county contracts include the Department of Drug & Alcohol, Mental Health Clinic, and the Community Reinvestment Program. The Agency is required to attest to the validity of its revenue reporting through the certification statement on its claims.

Our analysis revealed that the revenue amounts reported on the monthly claims certified by the Agency were unsupported and were lower than the revenue amounts shown in the monthly general ledger. Once the Agency received all monies allowed per its contracts (around year-end), it filed a supplement to its final claim to report the remainder of its revenue and expenses. As a result, Nassau County was effectively advancing funds to the Agency over and above the advances provided for in its county contracts.

Audit Recommendations:

The Agency should take steps to submit and certify accurate monthly claims where the revenue on the monthly claims agrees with the revenue recorded in its general ledger for the period covered by the claim.

Audit Finding (7):

Improper Accounting Practices

Generally Accepted Accounting Principles ("GAAP") require that revenue, expenses, accruals and adjusting entries be recorded in the appropriate account, amount and period.

We compared the agency's 2003 and 2004 Mental Health and Drug & Alcohol trial balances to their respective general ledgers and found the following improper accounting practices:

- 2002 year end accruals were not posted to the 2002 general ledger until October 28, 2003; two of these accruals (totaling $156,655) were posted to Nassau County Mental Health Program revenue accounts. Three days later, the agency reversed the two accrual entries to a non-county funded mental health account. This resulted in overstating the revenues reported in the Nassau County Mental Health Program account and understating the non-county funded account.

- The Agency claims monthly reimbursement from the county for pension costs. In October and November 2004 the agency received reimbursements totaling $7,297 in pension forfeitures for unvested terminated employees allocated to Nassau County Mental Health and Drug & Alcohol programs. The Agency failed to record the forfeitures in the Nassau County revenue accounts. Instead, the revenue was incorrectly credited to non-county unrestricted revenue accounts. The Agency also failed to report this amount to the County as revenue. The auditors were informed by the controller that she compensated for this error by excluding pension expenses on its October and November claims for the Mental Health and Drug & Alcohol programs. We requested, but were not provided with, documentation to support the fact that the credit to the county was equal to the pension forfeitures due to the county.

Audit Recommendations:

The Agency should take steps to:

a) ensure that GAAP is followed by posting year end accruals in a timely manner and reversing them in the appropriate accounting period to the accounts where the accruals were originally posted;
b) ensure that all revenue reimbursements are properly posted to the appropriate funding source and account; and

c) provide documentation that the county was credited an amount equal to the $7,297 pension forfeiture reimbursement.

Audit Finding (8):

Inappropriate Charges

As part of the audit process, we reviewed various charges against the county contracts and found instances of items inappropriately charged to the contracts.

Employee Contributions to health benefits

The Agency provides health benefits to non-union employees who contribute anywhere from 4% to 10% of the cost of the coverage. We tested the month of November 2003 and found that the Agency used the full insurance premium as the basis for its claims against the county and did not deduct the portion of the premium paid by the employees through employee contributions. As a result, $446 was over billed to the county.

Based on the November 2003 claim, we estimated the amount overcharged for the entire year to be approximately $5,347.

Although the Agency detected the error and ceased billing the County programs for the employee contributions to medical insurance in 2004, the Agency did not reimburse the County for the overcharges in 2003.

Billing of Non-Reimbursable Expenses – Sales Tax and Late Charges

Certain expense charges are not reimbursable by Nassau County. These include sales tax and late charges.

Sales Tax

- The Agency is a tax exempt organization and should not pay sales tax. A review of invoices paid during November 2003, March 2004, and June 2005 found that the Agency paid and allocated to agency programs, including county programs, $254 in sales tax charges.

Late Charges

- The Agency incurred late fees charged by vendors for late payment. A review of invoices paid during November 2003, March 2004, and June 2005 found that the Agency paid and allocated to agency programs, including county programs, $363 in late fees.

- The Agency did not consistently post late charges to the proper general ledger account. During the audit period we determined that $884 was posted to the late fee general ledger; however, for the three months tested, we found that an additional $230 in late fees were included as program expenses and not recorded in the late fee general ledger account. These fees may have been reimbursed by the county.

Audit Recommendations:

The Agency should:

a) determine the amount of (and reimburse the County for) the medical insurance premiums paid by the employees that were charged to the County in 2003;
b) determine the amount of sales taxes and late fees that were incorrectly charged to county programs, and reimburse the County accordingly;
c) provide exemption certificates to vendors so that the vendors will not bill sales tax on purchases; and
d) stop recording late fees as program expenses or claiming late fees on claims submitted to the County.

Audit Finding (9):

Failure to Properly Report Information to the IRS

The IRS requires entities to file a *Form 1099-MISC* (1099) for each individual to whom it has paid at least $600 for services. The external auditor was paid $46,085 for services in 2003 and $22,000 in 2004 and a review of the 1099's issued revealed that none were issued to the external auditor for either year.

Audit Recommendations:

The Agency should:

a) comply with IRS regulations and develop a process to ensure that 1099s are prepared for all individuals paid $600 (or more) for services; and
b) file 1099s with the IRS for 2003 and 2004 to report the payments made to the external auditor by the Agency.

APPENDIX I

AGENCY'S RESPONSE AND AUDITOR'S FOLLOW-UP

Introductory Comments by Agency:

There are multiple interrelated issues that make it challenging for innovative organizations such as North Shore Child and Family Guidance Center to organize, staff, finance and sustain a robust service mission for supporting the healthy emotional development of all children and youth in our diverse communities. With over a half a century of exemplary service to the children and families of Nassau County, we have great respect for the role of the Nassau County Comptroller's office in providing checks and balances for agencies serving the public good. This report highlights the fact that our Agency, like a growing number of others, was the victim of a fraud and theft that we uncovered prior to the audit. The authorities were notified by the Agency and the perpetrators were found guilty and brought to justice. The monies stolen were fully recovered at no cost to the County or Agency programs.

Although the Agency detected the fraud, in order to further improve our internal control environment we will retain an independent consultant with an extensive background in working with not-for-profit agencies. This individual will be engaged to provide an assessment of our internal controls and offer guidance and technical assistance as we develop written procedures to best prevent or detect unauthorized transactions or fraudulent activities.

The years that are highlighted as the major focus of the audit report are 2003 and 2004. It should be noted that this represents an atypical period in half-a-century-plus that the Agency has been operating. In 2003-04 there were frauds by two co-conspirator employees that led to thefts, key and long time staff in the financial department left the agency, a basement flood in our administrative office in Roslyn Heights left thousands of documents engulfed under five feet of standing water, and there were layoffs of five valued staff members due to a significant deficit.

No theft like the one described in the Nassau County Comptroller's report occurred prior, nor has there been a theft since. Fortunately our internal controls enabled us to detect the frauds as quickly as we did. We do acknowledge, however, that stronger internal controls might have prevented the frauds from happening at all, or might have led to even earlier detection. We are determined to improve internal control operations in our Agency. An independent consultant will enable us to strengthen the internal control environment and help us to develop written policies and procedures that will reflect all necessary functions. We expect that such a document will serve as a dynamic tool and will be invaluable for review and modification of operations.

The fiscal environment for our specialty children's outpatient mental health agency, the only one in New York State that is focused exclusively on children, youth, and their families, has been enormously challenging since the early 1990's due to decades of flat funding, New York State's decision to "Medicaid" the mental health system, and the proliferation of managed care companies that do not even approach covering the cost of service and that require burdensome administrative oversight. Throughout all of this, North Shore Child and Family Guidance Center continues to have a strong and committed board of directors, talented and innovative staff, and County partners that work in concert with the Agency to compensate for the financial hardship that prevents agencies such as ours from employing all of the personnel necessary to staff a complex organization with multiple contracts.

The fiscal environment that has existed for decades has led to inherent weaknesses for all non profit agencies that then must operate with limited resources. Nevertheless, the Agency takes the Comptroller's charge in this report seriously and will take all necessary steps for improvement as outlined in our full response. In addition, we will continue to be strong advocates for: 1. Restoration of local assistance funding at levels necessary to staff agencies that serve a growing population of children and youth, and their families, with very serious emotional disturbances; and 2. Revision of regulations that are written for an adult population and that do not adequately reflect the needs of children. As a long time member of the New York State Office of Mental Health Children's Planning Advisory Council (MHPAC), the Agency is presently involved in developing legislation for a more progressive and comprehensive system of care, across human services systems.

We will focus our attention on improving the *internal* fiscal controls highlighted in the Comptroller's comprehensive report. And, we will continue to advocate for improvement of the *external* fiscal forces that so constrain us.

NSCFGC Response to Audit Finding (1)

Inadequate Internal Controls Environment and Lax Oversight Led to Fraud:

Audit finding (1) refers to a third irregularity involving cash receipts. This related to a $770.00 cash receipts irregularity which occurred prior to the detection of the fraud. At the time of the detection of the cash receipts irregularity the Agency put into place additional controls relating to the front desk deposits. These controls included the verification of daily deposits by the Office Manager. When the fraud was detected, the Agency suspected that individuals who were guilty of the frauds were also involved in these irregularities, although there was no specific evidence to support this suspicion. The decision to not report the missing monies to the police or insurance company for recovery was determined at an administrative level and was not the sole decision of the Controller.

It should be emphasized here that there was adequate Board level oversight through routine meetings of the full Board, Board Budget and Finance meetings, and Board Executive Committee meetings in which the issues indicated in Audit Finding 1 were discussed. Although these issues were discussed extensively, we acknowledge that documentation did not adequately capture the depth of these discussions. Documentation going forward will be kept on all such matters.

Recommendation a: The Agency concluded that the full impact was identified and was isolated to the fraud period. The Agency had other internal controls in place that enabled detection of the fraud within a short period of time. In addition, our external auditors –

expanded the scope of their work for 2003 due to this occurrence. We do not believe employing an independent forensic firm is necessary at this time. However, in keeping with the spirit of this recommendation, we have retained an independent consultant with a deep background in working with not-for-profit agencies to review the internal control environment of the Agency.

Recommendation b: We agree with the recommendations and will implement them.

Recommendation c: We agree with the recommendation. It should be emphasized that the Agency did in fact disclose all pertinent information to our external auditors. It should be further noted that the lack of documentation in the management representation letter was an oversight versus an intentional omission. There were, in fact, numerous conversations that did transpire between management and the Agency's external auditors regarding the frauds and thefts.

Recommendation d: We agree with the recommendation and will implement it.

Recommendation e: We agree with the recommendations and have already started the interviewing process with the goal of employing an independent consultant to assist the Agency in reviewing the internal control environment. All employees at the Agency are supervised. Additional controls have been put into place for those duties that require segregation. At the present time the Agency has employed adequate oversight of accounting and payroll procedures, although budgetary constraints prevent us from hiring additional staff to fully segregate each function.

Recommendation f: The Controller works onsite 5 days a week. She is available by phone at all times and works additional time from home when necessary with approval by the Executive Director. Her schedule is presently adequate to ensure that internal controls are maximized. However, rather than standing on this belief alone, by employing an independent consultant the Agency expects to receive an objective assessment and specific recommendations for improvement, a step that the Controller fully supports and has been actively engaged in. The Controller provides direct supervision of staff including direction and assistance in the implementation of procedures and policies. She is a loyal, dedicated and valued member of this organization who has been affiliated with the Agency for over two decades. She possesses knowledge of the Agency's financial history that is invaluable and has always worked closely and transparently with the Board of Directors, Budget and Finance Committee and Treasurer.

We agree with the Comptroller's report that in the event that we are able to once again employ an Assistant Controller that this individual should receive his or her direct supervision from the Controller. In retrospect, we agree that the decision to remove this responsibility from the Controller proved to be problematic.

Recommendation g: We agree with the recommendation that at the time work is initially prepared and reviewed it should be documented. We have already begun implementing these procedures.

Recommendation h: We agree with the recommendation and, as indicated above, we have retained an independent consultant with a deep background in working with not-for-profit agencies to review the internal control environment of the Agency.

Auditor's Follow up Response:

We concur with the corrective actions taken by the Agency but reiterate our recommendation that the Agency consider hiring an independent forensics firm to determine if the full impact of the frauds has been identified.

Payroll Fraud:

Recommendations a and b: We agree with the recommendations and have already expanded our review of additional reports both before payroll is submitted and once it has been processed. These procedures will be documented.

Auditor's Follow up Response:

We concur with the corrective actions taken by the Agency.

Cash Disbursement Fraud:

Recommendations a and b: We believe that $5000.00 is the appropriate threshold and we will amend the bi-laws accordingly.

Recommendation c: All checks will have live signatures.

Recommendation d: As is currently the practice, we will continue to require that anyone who is signing checks will have all documentation to review.

Recommendation e: We agree with this recommendation. Currently checks are locked in a secure file cabinet. The sequence of checks is accounted for with a log. Voided checks are included on this log and the actual physical check is marked void and attached to the related monthly bank statement.

Auditor's Follow up Response:

We concur with the corrective actions taken by the Agency.

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Cash Receipt Fraud:

Recommendation a: We agree with the recommendation.

Recommendation b: We believe that it is unnecessary to perform an audit of cash receipts because the cash receipt frauds involved only two dates and the additional testing by the County auditors did not identify any other missing cash receipts.

Recommendation c: We agree with this recommendation regarding the need for segregation of duties and will include it a component of our overall review and documentation of internal controls.

Recommendations d and e: We agree with these recommendations. A new billing system has been in place since January 2007 which implements these recommendations.

Recommendation f: We agree with this recommendation. Procedures have been implemented including deposits being made at a minimum of every three days.

Recommendation g: We agree with this recommendation. The use of the payee stamp has been eliminated and the clients are required to submit checks with our name filled in as the payee.

Auditor's Follow up Response:

We concur with the corrective actions taken by the Agency but reiterate our recommendation that the Agency consider hiring an independent forensics firm to determine if the full impact of the frauds has been identified. Given the agency's lax internal control environment, our test of one month's receipts per year and one additional test month in 2003 should not be used as a basis for concluding that all frauds have been identified.

NSCFGC Response to Audit Finding (2)

Allocation of Expenses:

Recommendations a, c, d, and e: We will review the allocation of salaries to ensure that they are accurate. We agree with the recommendations as it relates to other expenses. As for the payments relating to alarm monitoring, snow removal and cleaning for the audit period, we will need to further review the dollar amounts indicated in the recommendations and then respond accordingly.

Recommendation b: We agree with the recommendation and procedures have already been implemented which will be documented.

Recommendation f: We agree with the recommendation and procedures have already been implemented.

Auditor's Follow up Response:

We concur with the corrective actions taken by the Agency and urge that the Agency reimburse the county for all salary overcharges.

NSCFGC Response to Audit Finding (3)

Employee Screening:

We agree with this recommendation. We have always had procedures to obtain necessary clearance for employees. As recommended, a checklist has been put into effect to verify that all documentation is contained in the personnel files.

Auditor's Follow up Response:

We concur with the corrective actions taken by the Agency.

NSCFGC Response to Audit Finding (4)

Employee Time and Leave:

Recommendation a and b: We will review this to determine if any reimbursement is necessary. Procedures have always been in place to record, track and approve vacation on a timely basis. During 2006 these procedures were reviewed, improved, and more strictly enforced to ensure that there are no overages at the end of the fiscal year.

Auditor's Follow up Response:

We reiterate our recommendation that employee leave be tracked on a timely basis. The Agency's procedure to ensure that there are no overages at the end of the year does not protect the Agency from exposure to paying employees, or billing the county, during the year for vacation time that has not been earned.

We concur with the Agency's corrective actions to be taken to review its records. We maintain that the Agency's review of these records will confirm our finding that it owes the county a reimbursement of $9,215 related to unearned leave paid to employees.

NSCFGC Response to Audit Finding (5)

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Bank Reconciliations:

Recommendations a, b, d and e: We agree with these recommendations and they have been implemented.

Recommendation c: This recommendation will be incorporated into the review of the internal control environment and we will make all necessary changes to insure segregation of duties.

Recommendation f: We agree with the recommendation and will submit an analysis to the County as requested. The $11,962 deposits in transit included 16 checks from another government agency, for a total of $10,173. We will be following up with that government agency as to the status of these checks.

Auditor's Follow up Response:

The disposition of reconciling items within the audited financial statements and CFR does not ensure that the county was given proper credit for revenues at the funding source level and on claims filed. We reiterate our recommendation that an analysis be prepared showing the proper disposition of the unrecorded receipts to be sent to the county.

Further the bank reconciliation provided indicates that cash receipts of $ 11,962 were recorded, but never deposited and subsequently written off without performing any follow-up. The fact that these missing deposits occurred during the same timeframe as the other frauds provides further support of our recommendation that the Agency consider hiring an independent forensics firm to determine if the full impact of the frauds has been identified.

NSCFGC Response to Audit Finding (6)

Revenue Reporting:

We agree with the recommendation and have taken steps to implement the recommendation. However, it should be noted that supplemental claims are filed to claim expenses and revenues based on final audited numbers. If any additional monies are due on the contracts it is at this point in time that the Agency is reimbursed the final contract amount due it.

Auditor's Follow up Response:

We concur with the corrective actions taken by the Agency.

NSCFGC Response to Audit Finding (7)

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AGENCY'S RESPONSE AND AUDITOR'S FOLLOW-UP

Recommendations a and b: We agree with the recommendations and we do take all necessary steps to insure that revenues, expenses, accruals and adjusting entries be recorded in the appropriate account, amount and period. The Agency general ledger software allows for the coding of transactions on many levels. The revenues and expenses are coded on a fund code level, a service level, a program level, a funding source level as well as a site level. This allows the Agency to review for internal purposes information at each level of reporting. The accruals were noted in the audit finding, while not reversed against the correct funding source level, were properly reversed against the correct program level. Since the financial statements and final CFR are all reported at the program level the Agency properly reported the reversal of the accruals against the Mental Health program and not against a non-county funded account. The revenues were not overstated as reported in the Nassau County Mental Health account and not understated in the non-county funded account.

Auditor's Follow up Response:

The Nassau County Comptroller's Office is concerned that postings at the funding source level are correct to ensure that revenues and expenses are claimed properly against the contract. Postings at the program level do not provide that assurance. GAAP requires that year end accruals be posted in a timely manner and that the accruals be reversed against the accounts and sub accounts to which they were originally posted. Failure to do so will result in incorrect sub- account balances.

Recommendation c: The amounts included in the pension forfeitures of staff that were no longer with the Agency were based on salaries lower than the current pension expense for October and November 2004. As a result any current expenses would have been higher than the credit. The Agency, in effect, absorbed the costs. We are in the process of seeking the additional information you requested to support our reasoning for not calculating each person, amount by amount and program by program.

Auditor's Follow up Response:

We reiterate our recommendation that the Agency provide documentation that the county was credited an amount equal to the $7,297 pension forfeiture reimbursement.

NSCFGC Response to Audit Finding (8)

Inappropriate Charges:

Recommendations a and b: Although in 2003 the monthly claims may have not shown the employee medical contributions deducted from the insurance expense, the net credit did get posted against each program and was properly recorded based on the final audited CFR filed. Since the CFR reflected the reduction in expense claimed to the County, there is no need for a further reimbursement. As far as this recommendation relates to late fees and sales tax, we will need to further review the dollar amounts indicated in the recommendations and then respond accordingly.

Auditor’s Follow up Response:

The CFR does not include funding source level detail and does not directly impact reimbursement claims filed. We have no evidence that the net credit was posted against county funding sources and reduced the county reimbursement. We reiterate our recommendation that the Agency determine the amount of (and reimburse the County for) medical insurance premiums paid by the employees that were charged to the county for 2003.

Recommendation c and d: We agree with the recommendations and will make the necessary changes.

Auditor’s Follow up Response:

We concur with the corrective actions taken by the Agency.

NSCFGC Response to Audit Finding (9)

Failure to Properly Report Information to the IRS:

Recommendations a and b: We agree that we need to develop a process to ensure that 1099s are prepared for all individuals paid $600.00 (or more) for services and we will adhere to said process on a going forward basis.

Auditor’s Follow up Response:

The Agency’s response does not address our recommendation that it file 1099’s for 2003 and 2004 to report payments made to the external auditor.