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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE THE VIETNAM VETERANS WORKSHOP, INC. D/B/A NEW ENGLAND SHELTER FOR HOMELESS VETERANS JULY 1, 2002 THROUGH DECEMBER 31, 2003

OFFICIAL AUDIT REPORT

MARCH 1, 2004

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The Vietnam Veterans Workshop, Inc., doing business as New England Shelter for Homeless Veterans (NESHV), was incorporated in 1988 as a charitable, nonprofit corporation for the purpose of providing a variety of social services to veterans.

Chapter 26 of the Acts of 2003, the state's fiscal year 2004 budget, requires the Office of the State Auditor (OSA), to conduct an audit of NESHV and submit the results of that audit to the House and Senate Ways and Means Committees. Accordingly, during fiscal year 2004 OSA initiated an audit of this agency. The scope of our audit included the various administrative and operational activities of NESHV during the period July 1, 2002 through December 31, 2003. Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States. Our audit had the following objectives: (1) a determination of whether NESHV had implemented effective management control systems; (2) an assessment of certain NESHV business practices and its compliance with applicable laws, rules, regulations, and the various fiscal and programmatic requirements of it state contracts; and (3) a determination of whether NESHV had taken appropriate corrective measures to address the deficiencies noted in our prior audit report (No. 97-4365-7) and the most recent audit conducted by the agency's private accounting firm.

Based on our audit work, we determined that NESHV either has resolved or is resolving the issues raised in the aforementioned audits of the agency and is taking measures to ensure that it has adequate internal controls over all aspects of its operations. Furthermore, in the areas we reviewed during our current audit, nothing came to our attention to indicate that NESHV was not expending its state funds in accordance with applicable laws, regulations, agency policies and procedures, and the terms and conditions of its state contracts.

During our audit we found that NESHV had taken measures to resolve two of the three issues raised during our prior audit (No. 97-4365-7), which covered the period July 1, 1995 to June 30, 1996.

Our prior audit found that NESHV had not formally issued a set of written policies and procedures regarding its petty cash funds and documentation remained at an unacceptable level. In addition, the prior audit found that the division of duties in NESHV's finance department regarding petty cash was inadequate. Specifically, the petty cash custodian reviewed petty cash request slips, disbursed funds, summarized petty cash transactions, prepared disbursement checks in his name for replenishment, obtained the Controller's signature, and retrieved the funds from the bank. The custodian also had responsibility over the general disbursement checkbook and did the weekly check disbursements, whereas the Controller approved all disbursements and reconciled the bank statements.

During our current audit, we found that NESHV has discontiued the use of petty cash funds.

Our prior audit found that the agency's Executive Director was also a member of the agency's Board of Directors. When an agency's staff members also serve on its Board of Directors, their ability to independently and efficiently govern the activities of the agency comes into question. During our follow-up review, we found that on June 26, 2002 NESHV had implemented a formal policy prohibiting its employees from serving as members of its Board of Directors. We also obtained a listing of the Directors and compared it with the agency's list of current employees. Our review determined that as of the end of our audit period none of NESHV's staff members were serving on its Board of Directors.

During our current audit, we found that NESHV has taken measures to partially resolve the third issue identified in our prior audit. In that audit, we had noted that NESHV had adopted a formal written set of travel-related policies and procedures. However, our review of a random sample of 66 expenditures by NESHV during fiscal year 1996 had indicated that 14 (21%) of those expenditures contained inadequate documentation. In addition, we had found that a $2,500 check had been made out to the Executive Director on August 4, 1995, purportedly for a salary advance. NESHV's policy required employees requesting a salary advance to sign a promissory note for the amount, to be paid back usually within two months. However, NESHV could not produce such a note for the $2,500 salary advance, nor could it demonstrate that the salary advance had ever been repaid. Moreover, our test of petty cash transactions disclosed $50 in salary advances secured by employee notes. As a result of such inconsistent implementation of its salary-advance policy, NESHV could not ensure that its assets were properly safeguarded or that funds would be repaid.

Our current audit found that the NESHV staff is adhering to the agency's current policies regarding travel-related expenses and is, accordingly, no longer providing salary advances. However, the agency did not have any records to substantiate that the salary advance provided during August 1995 to its former Executive Director had been repaid as recommended in our prior audit report.

During our audit work, concerns were brought to our attention regarding alleged questionable activities at NESHV. Although in one instance NESHV officials could not provide documentation we requested, our review of the available documentation regarding these matters identified no questionable activities.

INTRODUCTION

Background

The Vietnam Veterans Workshop, Inc., doing business as New England Shelter for Homeless Veterans (NESHV), is a not-for-profit organization established in 1988 and dedicated to creating a one-stop service center to empower homeless, underemployed, and unemployed veterans to address the issues leading to homelessness and unemployment. The agency provides clients with the tools necessary to move toward independent living and permanent housing. NESHV serves men and women in its facility, which is located in Boston and operates 24 hours a day.

The agency provides a variety of services, including a residential program with a three-tiered structure:

1. Cot Squad: Prepares each veteran for the shelter's reintegration program by providing counseling and a case manager who helps the veteran to develop short- and long-term goals to attain self-sufficiency

2. Transitional Housing: Provides veterans with a more comfortable living environment, where clients must be working or enrolled in a training or educational program and must concentrate on financial management and finding permanent housing

3. Single Room Occupancy: Offers independent living for veterans who have successfully completed the Transitional Housing component

NESHV also offers supportive services such as education, employment, and healthcare. It operates an emergency healthcare clinic located on-site and offers medical, dental, and optical services. NESHV also operates the Veterans Technical Training Institute (VetTech), a free job-placement service available to all unemployed and underemployed veterans, providing them with the job skills necessary for entry-level positions in the culinary arts, commercial driving, security, computer operations, etc. Additionally, NESHV provides financial and legal counseling to clients.

During our audit period (July 1, 2002 to December 31, 2003), NESHV funded its programs under contracts with the Departments of Mental Health (DMH), Public Health (DPH), and Veterans' Services (DVS). The agency also received funds from contributions, gifts, federal grants, client resources, and other state and local governments. A summary of NESHV's revenue during the audit period is outlined in the following table:

NESHV
Summary of Revenue
July 1, 2001 through June 30, 2003

	Fiscal Year 2002	Fiscal Year 2003
Contributions, Gifts	$1,081,161	$1,367,582
DMH	33,150	32,629
DPH	38,438	36,793
DVS	2,123,030	2,093,734
Department of Transitional Assistance	-	28,960
Other Mass. State Agency POS	70,750	10,000
Mass. Local Govt./Quasi-Governmental Entities	797,701	862,920
Direct Federal Grants/Contracts	1,193,973	1,147,665
Client Resources	158,974	169,966
Other Revenue	144,373	119,073
Released Net Assets	1,566,542	61,563
Total	$7,208,092	$5,930,885

Audit Scope, Objectives, and Methodology

Chapter 26 of the Acts of 2003, the state's fiscal year 2004 budget, requires the Office of the State Auditor to conduct an audit of NESHV and submit the results of that audit to the House and Senate Ways and Means Committees by no later than March 1, 2004. As a result of this requirement, in accordance with Chapter 11, Section 12, of the Massachusetts General Laws we conducted an audit of certain activities of NESHV. The scope of our audit included the various administrative and operational activities of NESHV for the period July 1, 2002 to December 31, 2003. However, in some instances it was necessary to extend the period covered by our audit to adequately examine certain transactions that we selected for testing during our review.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and included audit tests and procedures that we considered necessary to meet those standards.

Our audit objectives consisted of the following:

1. A determination of whether NEHSV had implemented effective management control systems, including the following:

    - Processes for planning, organizing, directing, and controlling program operations

- Policies and procedures to ensure that resource use is consistent with laws and regulations
- Policies and procedures to ensure that resources are safeguarded and efficiently used

2. An assessment of certain NESHV business practices and compliance with applicable laws, rules, regulations, and the various fiscal and programmatic requirements of its state contracts
3. A determination of whether NESHV had taken appropriate corrective measures to address the deficiencies noted in our prior audit report (No. 97-4365-7) and the most recent audit conducted by the agency's private accounting firm

To achieve our objectives, we first assessed NESHV's management controls to obtain an understanding of management's attitude, the control environment, and the flow of transactions through NESHV's accounting system. We used this assessment in planning and performing our audit compliance tests. We then held discussions with NESHV's administrative and accounting personnel and reviewed organizational charts and internal policies and procedures as well as all applicable laws, rules, and regulations. We also examined NESHV's financial statements, budgets, cost reports, billing invoices, and other pertinent financial records to determine whether expenses incurred under its state contracts were reasonable, allowable, allocable, properly authorized and recorded, and in compliance with applicable laws, rules, and regulations. We performed audit work necessary to determine what specific actions NESHV had taken to correct the deficiencies identified in our prior audit report and to assess whether those actions adequately addressed them.

Our audit was not made for the purposes of forming an opinion on NESHV's financial statements. We also did not assess the quality and appropriateness of program services provided by NESHV under its state-funded contracts. Rather, our audit was intended to identify the extent to which NESHV has complied with applicable laws, regulations, and contractual agreements; follow up on prior audit deficiencies by noting their current status; and identify services, processes, methods, and internal controls that could be made more efficient and effective.

On February 16, 2004, we met with NESHV officials at NESHV's place of business to discuss our draft report. All comments made by NESHV officials during this meeting regarding our draft report were considered in the drafting of our final report. In addition, NESHV provided written comments which appear in Appendix C.

AUDIT RESULTS

Our prior audit (No. 97-4365-7), which covered the period July 1, 1995 through June 30, 1996, disclosed three deficiencies in NESHV's operations. Our current audit results, as they relate to those of the prior audit, are presented in the following sections.

1. PRIOR AUDIT RESULTS RESOLVED

During our audit, we found that NESHV had taken measures to resolve two of the three issues raised during our prior audit of the agency.

a. The Need for Adequate Internal Controls over Petty Cash Funds Has Been Addressed

Our prior audit found that NESHV had not formally issued a set of written policies and procedures regarding its petty cash funds and documentation remained at an unacceptable level. Specifically, of 24 petty cash transactions randomly reviewed during our prior audit, five did not have purchase receipts to substantiate the expense, and one did not have the required supervisory approval. In addition, the prior audit found that the division of duties in NESHV's finance department regarding petty cash was inadequate. Specifically, the petty cash custodian reviewed petty cash request slips, disbursed funds, summarized petty cash transactions, prepared disbursement checks in his name for replenishment, obtained the Controller's signature, and retrieved the funds from the bank. The custodian also had responsibility over the general disbursement checkbook and did the weekly check disbursements, whereas the Controller approved all disbursements and reconciled the bank statements.

Our prior audit recommended that NESHV (1) develop and implement formal written policies and procedures over the use of those funds; (2) reimburse the Commonwealth for any state funds that were used to pay for those undocumented or inadequately documented expenses, unless it was able to substantiate such expenses to the Commonwealth; and (3) segregate staff duties so that the recording of petty cash transactions is separated from cash handling and checkbook responsibilities, and also review staff duties for any opportunities to strengthen internal controls over those disbursements.

During our current audit, we determined that as of June 30, 2003 the agency had a $400 balance in its general petty cash fund and a $100 balance in its Veterans Technical Training

Institute (VetTech) program's petty cash fund. We asked agency officials to provide documentation to substantiate what measures it had taken to address our concerns regarding the administration of petty cash funds. In response, the agency's interim CFO stated that effective April 2003 NESHV had terminated the use of all petty cash funds and formalized this policy in a memorandum to staff in January 2004. He added that reimbursements for what were formerly petty cash expenses are handled directly through the submission of payment requests by staff, and adequate documentation is required to support all items prior to payment.

To verify the interim CFO's response, we reviewed the financial records regarding NESHV's petty cash accounts during the period April 30, 2003 through December 31, 2003 and found that no petty cash transactions had taken place. Therefore, it appears that the agency's policy to discontinue the use of petty cash funds has been implemented. However, if the agency decides to reestablish petty cash accounts, it should take measures to ensure that it implements adequate controls over the use of those funds.

b. The Composition of NESHV's Board of Directors Is in Compliance with State Law and NESHV's Policy

Our prior audit found that the agency's Executive Director was also a member of its Board of Directors. The Board of Directors is the primary organizational body that ensures that the agency meets its operational objectives in the most effective and efficient manner. Board members perform a variety of key functions, including overseeing the overall operations of the agency, setting policies and procedures to ensure agency objectives are met, and hiring the agency's top executive. Chapter 180 of the Massachusetts General Laws requires directors, officers, or incorporators of nonprofit charitable organizations to exercise their duties and responsibilities in good faith and in the best interests of the corporation. However, when agency staff members also serve on its Board of Directors, their ability to independently and efficiently govern the activities of the agency comes into question. Our prior audit recommended that NESHV consider adopting a policy that prohibits employees from serving as Board members.

During our follow-up review, we found that on June 26, 2002 NESHV had implemented a formal policy prohibiting its employees from serving as members of its Board of Directors.

We also obtained a listing of the Directors (see Appendix B) and compared it with the agency's list of current employees. Our review determined that as of the end of our audit period none of NESHV's staff members were serving on its Board of Directors.

2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED: NESHV HAS TAKEN MEASURES TO MINIMIZE QUESTIONABLE AND UNDOCUMENTED EXPENSES BUT HAS NOT RESOLVED THE ISSUE OF A $2,500 SALARY ADVANCE TO ITS FORMER EXECUTIVE DIRECTOR

During our current audit, we found that NESHV has taken measures to partially resolve the third issue identified in our prior audit. In that audit, we noted that NESHV had adopted a formal written set of travel-related policies and procedures. However, our review of a random sample of 66 expenditures by NESHV during fiscal year 1996 had indicated that 14 (21%) of these expenditures contained inadequate documentation. For example, of eight travel-related expenditures (totaling $7,157.47) included in our sample, four contained inadequate documentation, as follows:

- Three expenditures, totaling $1,899.29, lacked adequate documentation to verify whether the expense had a business purpose or were actually paid.
- An expenditure for $1,090.26 lacked the proper approval required by NESHV's travel-related policy.

In addition, we had found that a $2,500 check had been made out to the former Executive Director on August 4, 1995, purportedly for a salary advance. NESHV's policy required employees requesting a salary advance to sign a promissory note for the amount, to be paid back usually within two months. However, NESHV could not find such a note for the $2,500 salary advance, nor could it demonstrate that the salary advance had ever been repaid. Moreover, our test of petty cash transactions disclosed $50 in salary advances secured by employee notes. As a result of such inconsistent implementation of its salary-advance policy, NESHV could not ensure that its assets were properly safeguarded or that funds would be repaid. NESHV's Controller stated at the time that the $2,500 salary advance had been made without his knowledge and the check had been signed by the Chief Operating Officer, who had cosigning rights for the general disbursement bank account.

Our prior audit recommended that NESHV (1) follow its formal written policies and procedures regarding staff travel, (2) require its former Executive Director to reimburse the salary advance or provide documentation to demonstrate reimbursement, and (3) implement a salary-advance policy in a consistent manner, regardless of staff position.

During our current audit, we determined that effective June 26, 2002 NESHV had implemented a new formal written staff travel policy. We reviewed this policy and found that it establishes adequate and consistent controls over all staff levels for obtaining proper approval for all business-related travel and adequately documenting all travel-related expenses. We also reviewed all the documentation that NESHV was maintaining regarding travel expenses that it had paid during fiscal year 2003. According to NESHV's financial records, during that fiscal year four members of NESHV's staff had gone on five trips and incurred $4,275 in business-related expenses. Based on our review of the documentation that the agency was maintaining regarding these trips, we determined that all the expenses associated with these trips had been properly authorized and documented in accordance with the agency's travel-expense procedures.

Regarding salary advances, we found that as of December 31, 2003 the agency's Employee Loans/Advances account had a balance of $3,600, which had been loaned by the agency to two employees (now former employees) prior to April 2003. According to the agency's Interim CFO, effective April 2003 the agency discontinued the policy of providing loans to employees. During our audit, we reviewed the activities in the agency's Employee Loans/Advances account during the period April 2003 through December 2003 and determined that NESHV had made no loans to its employees during this period. Therefore, it appears that the NESHV staff is adhering to this policy.

Regarding the salary advance to the agency's former Executive Director, NESHV officials could not provide documentation indicating that the former Executive Director had paid back the salary advance. They further stated that they did not believe that he had done so. Consequently, we again recommend that NESHV require its former Executive Director to reimburse the salary advance or, if he has done so, provide documentation to demonstrate reimbursement.

In addition to conducting follow-up testing on issues identified during our prior audit of NESHV, we conducted testing to determine the status of issues identified by NESHV's private accounting firm as a result of its fiscal year 2003 audit of the agency. That audit identified 20[1] internal control and operational problems, including, among others questionable accounting practices and procedures, the improper administration of grants and other restricted funds, no inventory of fixed assets, missing documentation of agency transactions, cash flow and payroll issues, and untimely financial reporting. During our current audit we conducted testing to determine the status of these issues and found that the agency has resolved or is resolving the issues identified in that report. A detailed description of the issues raised by NESHV's private accounting firm, along with our audit work in this area and the actions taken by the agency to resolve these matters, appears in Appendix A.

3. OTHER MATTERS

During our audit, concerns were brought to our attention regarding alleged questionable activities at NESHV. These concerns, along with the audit work we conducted to address them and our conclusions, are detailed in the following sections.

a. Concern: NESHV Incurred Catering Costs Totaling $180,000 during Fiscal Years 1988 through 1994 for Services Not Delivered; a Member of NESHV's Board of Directors Improperly Negotiated a Settlement Totaling $120,000 to Be Paid to the Caterer; and a Former Executive Director of the Agency Was a Tenant of That Caterer during the Time The Meals Were Provided, Resulting in a Potential Conflict of Interest

During our audit, we asked NESHV officials to provide all documentation (e.g., contracts, meal delivery reports, or invoices) that the agency was maintaining regarding services provided by the catering company, Famolare's Enterprises, Inc. (Famolare's) of Boston. In response, agency officials stated that they were unable to provide any records for any services that may have been provided by Famolare's.

During a prior audit of NESHV (No. 95-4365-3) that we conducted for the period July 1, 1994 through June 30, 1995, we had reviewed some of the records that NESHV was maintaining regarding the services provided by this vendor. The audit result regarding this matter, as it appears in our prior report, states as follows:

> *During fiscal year 1991, 1992, and 1993, [DVS] awarded cost reimbursement contracts that provided $536,998, $1,123,997 and $1,246,622, respectively, to NESHV. Under the terms and conditions of these contracts, NESHV was required*

[1] The management letter issued by NESHV's private accounting firm for 2003 had identified 28 exceptions. However, we grouped similar exceptions together.

to provide a variety of services, including serving 150 breakfasts and 150 lunches each day in its Emergency Shelter Program.

According to agency officials, NESHV initially provided these meals, which consisted primarily of cereal for breakfast and a cold sandwich for lunch. However, in January 1991, NESHV stated that it entered into a verbal agreement with a Boston restaurant to provide hot breakfasts and hot lunches each day for a total cost, for both, of $4.02 per person. In addition to purchasing meals from the restaurant NESHV also purchased kitchen supplies such as plastic utensils and plates, which according to NESHV officials, were purchased primarily out of convenience. The restaurant continued to provide these meals and kitchen supplies to the shelter until December 1994.

During our audit, we examined the daily logs of the meals served at the shelter and determined that the shelter served over 300 breakfasts and lunches per day during the period of its contract with Department of Veterans' Services. Therefore, NESHV complied with this contractual obligation. The table below indicates NESHV's billing to DVS for meals as well as its payments to the restaurant.

NESHV
Cash Receipts and Disbursements for Meals*

Period	Billings to Shelter (Meals Only)	Shelter's Billings to DVS	DVS Funding (Meals Only)
January 1991 through June 30, 1991	$99,591	$94,600	-
July 1, 1991 through June 30, 1992	220,698	219,492	$227,135
July 1, 1992 through June 30, 1993	184,169	179,953	220,095
July 1, 1993 through June 30, 1994	90,800	73,032	118,000
Total	$595,258	$567,077	$565,230

** In addition to these meals, NESHV also paid $32,105 for kitchen supplies during this period. However, the cost of these kitchen supplies was not charged against state contracts.*

As can be seen from the above table, NESHV's billings did not exceed the maximum amount allowed under its [DVS] contract. However, as of June 30, 1995, NESHV owed the restaurant approximately $96,800 because NESHV did not use all the revenues it received under its [DVS] contracts to pay the restaurant for the meals it provided. NESHV officials stated that, although they are contesting this amount (because they believe they may have been overcharged for some of the kitchen supplies), they are making weekly payments of $2,000 to the restaurant to settle this debt.

Our prior audit reported that the services provided by Famolare's ended in December 1994 and nothing came to our attention during our audit testing to indicate that any services had been provided by this caterer subsequent to that date. Organizations such as NESHV that receive state funding are required by state regulations to maintain their records for seven years. The Commonwealth Terms and Conditions for Human and Social Service Providers, issued March 14, 1997, in part states:

> *7. <u>Record-Keeping and Retention, Inspection of Records</u>. The Contractor shall maintain records, books, files, and other data as required by 808 [Code of Massachusetts Regulations] CMR 1.00 and as specified in a Contract and in such detail as shall properly substantiate claims for payment under a Contract, for a minimum retention period of seven (7) years beginning on the first day after the final payment under a Contract, or such longer period as is necessary for the resolution of any litigation, claim, negotiation, audit or other inquiry involving a Contract. The Contractor shall maintain adequate written policies and procedures for accounting, management and personnel activities, including but not limited to conflict of interest and nepotism policies. The Department shall have access, as well as any parties identified under Executive Order 195, during the Contractor's regular business hours and upon reasonable prior notice, to such records, including on-site reviews and reproduction of records at a reasonable expense.*

Since, according to our prior audit, NESHV stopped purchasing meals and supplies from Famolare's in December 1994, the seven-year record retention period has elapsed and NESHV is not required to have those records available for our review. However, although the agency could not provide the requested documentation, during our current audit we spoke with NESHV staff members who had worked for the agency during the period in question; they informed us that to the best of their recollection this caterer had provided one meal a day beginning when NESHV had first opened, in 1988, through the end of 1994.

NESHV's CEO and interim CFO stated that on October 1, 1999 NESHV and Famolare's entered into an agreement under which NESHV agreed to pay the catering company \$112,500 based on an amortization schedule, as follows:

> *Commencing on October 1, 1999 and continuing thereafter, on the first day of each calendar month, [NESHV] shall make a monthly payment to Famolare's for a period of no more than sixty (60) months, but perhaps less if [NESHV] exercises its right to make advance payments as set forth below. Outstanding principal shall carry an annual interest rate of 8.5% for the first twelve months, and shall increase by 0.5% for each twelve months thereafter. Subject to the right to make advance principal payments, the amortization schedule attached shall apply.*

NESHV paid off this debt on January 7, 2004. At that time, the outstanding balance owed to Famolare's per the agreement was \$45,009, \$11,250 of which the Famolare's owner forgave, as a contribution to NESHV. We asked NESHV officials to provide documentation regarding how the \$112,500 obligation amount had been established, in order to assess its reasonableness. However, agency officials stated that they were unable to provide the requested documentation.

Regarding the alleged tenant-landlord relationship between NESHV's former Executive Director and the owner of Famolare's, we reviewed and compared City of Boston real estate records with the home address of the former Executive Director while he was employed at NESHV. Our review determined this portion of the allegation to be unfounded.

b. Concern: A Former NESHV CFO Misappropriated Funds Totaling $60,453 from the Agency

During our audit, we reviewed NESHV's financial and legal records and spoke to NESHV officials regarding this matter. NESHV officials confirmed that a former CFO had been found to have misappropriated agency funds, estimated by NESHV's private accounting firm to be approximately $60,453. On December 6, 1999, NESHV was reimbursed $50,000 from its liability insurance carrier, Crum & Forester Insurance, for that misappropriation. NESHV officials appeared to have acted appropriately by seeking reimbursement of these monies from the insurance carrier, and they have taken measures to improve the agency's internal controls to minimize the potential recurrence of such incidents.

c. Concern: A former Executive Director Charged NESHV for Two Trips: One to a Football Game in South Bend, Indiana, and One to San Francisco in June 2001 for a Conference That He Did Not Attend

During our audit, we reviewed the agency's accounting records, including its expense journals, for the period covering fiscal years 1999, 2000, and 2001 and did not identify any expenses paid, or any check issued, for travel by the former Executive Director to San Francisco or Indiana.

d. Concern: NESHV Made an Inappropriate Funds Transfer of $200,000 from a Restricted Investment Account to Its Operating Account

During our audit, we reviewed NESHV's financial records for the previous seven years and spoke with NESHV management regarding this matter. Based on our review, we determined that the agency has an investment account with Smith-Barney-Citigroup. According to NESHV officials, this account is used for donations that it receives in the form of stocks or bonds. The balance of this account was $24,299 as of December 31, 1998, and $8,895 as of January 27, 2004. According to agency records, the funds in this account are unrestricted and any transfer of funds from it to the agency's operating account would be allowable. However, based on our review of the financial records maintained by NESHV regarding this account, we found no funds that had been transferred from this account into any other agency account after December 31, 1998. The change in the account balance was due to a decrease in the value of the assets held in the account.

e. Concern: NESHV Issued IRS Form W-2s to Its former Executive Director that Did Not Reflect a $500 Monthly Compensation Paid in the Form of a Car Allowance

On January 30, 1998, we issued an audit report (No. 97-4365-7) on certain activities of the NESHV that specifically pointed to this allegation as an issue identified during a prior audit (No. 95-4365-3) and subsequently resolved. This first report states, in part, that "our review revealed that this fringe benefit provided to its former Executive Director was not reported to the Internal Revenue Service (IRS) or the state's Department of Revenue as required by IRS regulations and state law." Our follow-up review had determined that NESHV had discontinued providing car allowances to its employees and had added $6,000 to the former Executive Director's 1995 taxable income. During our current audit, we reviewed all the fringe benefits provided to staff members during our audit period and determined that the agency provided a car allowance totaling $3,882 during fiscal year 2003 (July 2002 through February 27, 2003) and reported this amount as taxable income on the IRS forms W-2 for each calendar year. NESHV's interim CFO stated that the agency discontinued providing car allowances to staff members after the CEO left employment on February 27, 2003. During our audit testing we confirmed that during the period February 27, 2003 through December 31, 2003 no staff members had been provided a car allowance.

f. Concern: A Former NESHV Executive Director Received a Cash Contribution of $20,000 for NESHV from a North Shore American Legion Post and Took Some Funds from the Contribution

During our audit, we reviewed NESHV's financial records and spoke with NESHV management regarding this matter. Based on our audit work, we determined that a $20,000 check to NESHV from the Melrose Legion Building Association, Inc., dated March 3, 2001, was deposited into the NESHV Capital Account on March 13, 2001. Subsequently, on April 13, 2001, NESHV was notified by the attorney representing American Legion Melrose Post No. 90 that these funds had been intended for beneficiaries of the funds held in trust for

American Legion Post No. 90 by the Melrose Legion Building Association, Inc. This letter requested that these funds not be expended but be held in escrow until "1) A court or the Office of the Attorney General, Division of Public Charities determines its rightful disposition; 2) Melrose Post No. 90 and the Department of Veterans' Affairs agree to the disposition of the funds." On March 25, 2002 this matter was resolved through a letter from the CEO of NESHV to the American Legion Judge Advocate and an attached $20,000 check made payable to the Melrose American Legion Post. During our audit work, nothing came to our attention indicating that any of these funds had been misappropriated.

g. Concern: NESHV Paid an Entertainer an $11,000 Fee for a Fundraiser Held at NESHV to Benefit His Own Foundation, and NESHV Received No Proceeds from the Fundraiser to Cover Its Costs

During our audit, we reviewed the NESHV's financial records and spoke with NESHV officials regarding this matter. During our review, we found no documentation to substantiate that any fees were paid to this entertainer during the period covered by our audit. However, we found that the national foundation formed by the entertainer to benefit veterans in need, The Hope McDermott Fund, has contributed $24,431 to NESHV since December 2000.

APPENDIX A

Status of Issues Raised by NESHV's Private Accounting Firm

During our audit, we found that the fiscal year 2003 audit conducted by NESHV's private accounting firm had identified 20 internal control and other operational problems. Detailed below are (1) the specific problems (in summary form) identified by this accounting firm during its audit; (2) NESHV's comments (excerpted), and in the case of prior-year audit findings—the status of the finding as reported by the private accounting firm; and (3) the results and conclusions of the audit work that we conducted to determine the current status of those problems.

1. INTERNAL CONTROLS

Accounting Firm Audit

The audit noted that during the prior year audit, conducted during fiscal year 2003 for fiscal year 2002, serious concerns had been raised concerning the risk of management's override of existing controls and failure to comply with grant requirements. The report noted that once these concerns were raised with the agency's Finance Committee, its members took immediate and effective action to bring the organization in line with the expectations of outside agencies and auditors. The audit report also noted that there was significant improvement in higher-level controls and cash management at NESHV during the fourth quarter of 2003 under the direction of the Board Management Team.

NESHV Response

> *The Board Management Team (BMT) was placed in control of [the] Agency's operations by the Board of Directors on March 3, 2003. After negotiating an MOU [Memorandum of Understanding] with the Commonwealth of Massachusetts during the first week of assuming Agency leadership and conducting a month of internal investigations, the BMT began to institute major changes to the financial and management practices of the Agency, including the replacement of the Chief Financial Officer with an external contractor whose expertise is non-profit financial management. A new Controller, who had started employment on March 10, 2003, assisted in overhauling the financial systems and controls of the Shelter. The fiscal year 2003 management letter reflects more than 9 months of the prior administration's leadership.*

Our Audit Follow-Up/Conclusion

We reviewed the internal controls that NSHEV had established over various aspects of its operations. Based on our review, we found that although many of the agency's control procedures were not documented in writing, the agency had implemented and was following control procedures in all areas reviewed. The agency's CEO stated that it is management's intention to document all control procedures in writing and distribute these procedures in draft form to the Board Finance Committee and subsequently to the Board of Directors for approval at its April 2004 meeting.

2. CASH FLOWS

Accounting Firm Audit

The audit noted that NESHV continues to experience cash flow problems, as evidenced by high accounts payable balances and poor cash position. As a result, NESHV continues to experience difficulty in paying vendors within 30 days of charging the expenses to the grants. This appears to be occurring because the program expenses exceed program revenues. The Department of Veterans' Services (DVS) currently funds 105 shelter beds, and the Supportive Housing Program (SHP) funds 40 beds. However, the agency typically provides up to 158 additional beds, which are not funded by these programs. As a result, the audit recommended that the agency pursue additional sources of funding for the beds currently not funded by DVS and SHP. Additional funding would help to improve the agency's cash position and enable it to pay vendors in a more timely manner.

NESHV Response

Cash flow difficulties resulted from years of constrained financial resources (including a $550K budget cut in [fiscal year] FY2001 DVS funding) with the housing and program needs expanding and expenses continuing to exceed revenue. Personnel layoffs in April, June and July 2003 reduced the Shelter workforce by 30% with attendant reductions in supportive expenses. The FY2004 budget is responsible and includes a $350K Income from Operations in an effort to generate a positive cash flow for repayment of aged accounts payables.

Additional funding resources have been pursued. HUD/City of Boston Project Access was reinstituted in September 2003 with funding provided back to its budget period end of February 28, 2003. The Department of Labor award of HVRP Post-Incarcerated Veteran grant July 1, 2003 has provided funding for previously un-funded outreach to correctional facilities from which some Shelter residents have been coming. A $700K VA Life Safety Grant awarded in October 2003 will address facility life safety construction and repairs. Foundation grant applications have resumed in the wake of the successfully filed 2002 audit on May 15, 2003. The Foundation and corporations that are awaiting the FY2003 completed audit will shortly be approached for new funds.

The "Leave No One Behind" inaugural fund-raiser on November 11, 2003 will initiate an operating reserve and endowment for the Shelter to begin the road to financial stability in the midst of the vagaries of governmental funding.

Additionally, both programs and the client population in general are being evaluated in terms of back-up plans that would be necessitated by any future governmental funding cuts. The Shelter's Board of Directors and executive leadership will not permit a future budget that is not at a minimum balanced with contingency plans for unanticipated funding reductions.

Our Audit Follow-Up/Conclusion

During our audit, we reviewed NESHV's financial records and determined that during the six months ended December 31, 2003 the agency had positive monthly cash flows. We also reviewed the agency's aged payables schedule, which as of January 8, 2004 had a balance of $532,320. The status of the payables was as follows:

Age	Amount
Over 90 days	$309,547
61 to 90 days	0
31 to 60 days	147,174
0 to 30 days	75,599
Total	$532,320

NESHV's interim CFO stated that the agency is in the process of settling many of these obligations for lesser amounts than the outstanding balances. For example, the agency is negotiating with 14 of the vendors to whom NESHV owes money to instead take lump-sum payments, which would result in the NESHV paying almost $100,000 less than the outstanding balances. In addition to improving its cash position by negotiating favorable settlements of outstanding obligations, during fiscal year 2004 NESHV netted approximately $110,000 from its "Leave No One Behind" fundraiser and eliminated 37 staff positions, which NESHV officials claim will result in an annual savings of $720,000. One of the major factors driving the shelter's cash flow problems was the underpayment of its indirect costs by the various funding agencies. NESHV officials stated that effective fiscal year 2004 the agency's indirect reimbursement rate on its state and federally negotiated contracts has been approved to be increased from 15.46% of direct costs to 46.91%, which should provide significantly more revenue to the agency.

3. CASH MANAGEMENT

Accounting Firm Audit

The audit identified numerous instances of checks clearing the bank well over 30 days after the date on which the expenses were billed to the grantors. Grantors require that expenses be paid within a reasonable period after being drawn on the grants. As a result, the audit recommended that expenses be paid within 30 days of being drawn on the grants and internal controls be developed to earmark for prompt payment those amounts that have billed to grants.

NESHV Response

Currently all invoices are being paid within 30 days of corresponding funds being drawn down on grants. It is the policy of the Shelter to process the invoices and, in fact, be paid within 7 days of receipt of the funds drawn-down.

Our Audit Follow-Up/Conclusion

During our audit, we found that DVS was requiring NESHV to submit, on a monthly basis, a canceled-check listing showing the front and back of all canceled checks in order to ensure that NESHV was processing its checks in a timely manner. We also reviewed all checks issued by NESHV during November 2003 and found that all were cashed within 30 days of the funds' being drawn from the grant.

4. RESTRICTED FUNDS

Accounting Firm Audit

The audit noted that the agency withdrew funds from restricted cash accounts for operating use. The medical/dental account was used as a payroll account in August 2002, and the funds were later transferred to the operating and VetTech bank accounts. Also, the agency received a restricted grant to provide food services, but as of June 30, 2003 $116,090 had not been spent for this designated purpose. However, these funds were not being held in a restricted bank account when they were partially spent for operating purposes. As a result, the audit recommended that the agency improve its cash management policies, and bank accounts that are set up for restricted purposes be segregated from operating funds and used only for their intended purposes.

NESHV Response

> *Over the past several months, comprehensive cash management procedures have been implemented. The initial steps were the development of a fiscally responsible operating and cash flow budget for Fiscal 2004. After review and approval by the Finance Committee and Board of Directors the details of the budget were implemented. Specific to the Fiscal 2004 cash flow budget, a detailed monthly budget has been developed. The Chief Financial Officer reviews and monitors a daily report showing the actual vs. budgeted activity. Any significant variance in receipts or disbursements is investigated to determine the impact on the annual budget and the corrective [action] to be implemented. At the monthly Finance Committee and the Board of Directors meeting, the CFO presents the previous month's cash flow actual vs. budget with detailed explanations of significant variances.*
>
> *Restricted accounts required for VWIP and HVRP grants by DVS and the Department of Labor were established and operated in accordance with the restrictions as of July 2003 and August 2003 respectively. The food services grant has expensed approximately $80,000 for food and related food service through August 2003. It is anticipated that during Fiscal 2004, the total amount of the grant will be spent in accordance with the donor's restrictions. An extension is being requested of the donor until June 30, 2004 for expenditure of the remainder of the funds for these restricted purposes. To monitor and track restricted donations, a separate account has also been established for funds received on behalf of the "Leave No One Behind" fund-raiser. An internal policy exists that the CEO and CFO must approve the transfer of funds out of the Operating Reserve into the Operating account of the Shelter. An endowment account is being established permitting access only to earnings, and only upon approval of the Board of Directors. The pending line of credit from Fleet Bank can be accessed only upon approval of the CEO and CFO. The Finance Committee for the Board of Directors must approve in advance any withdrawals exceeding $75,000. All expenses form restricted accounts are highlighted in the reports of the Shelter financial statements to the Finance Committee and the Board.*

Our Audit Follow-Up/Conclusion

During our audit, we found that NESHV had taken measures to improve controls over the use of restricted funds. For example, the agency had established separate accounts for restricted and unrestricted funds, and the agency's CEO and CFO now must approve fund transfers from restricted accounts. During our audit, we reviewed all fund transfers made by the agency from July 1, 2003 through December 31, 2003 and identified no inappropriate transfers.

5. CASH-BANK RECONCILIATION

Accounting Firm Audit

The audit noted that the cash accounts had not been reconciled to the bank statements since January 2003. The bank reconciliation was still in progress and was not completed until the last week of audit fieldwork. The audit also noted that several bank accounts had been closed during the year, with cash transferred or withdrawn and deposited to other accounts. However, the balances of the closed accounts had not been removed from the books. As a result, the audit recommended that all cash accounts be reconciled on a monthly basis and reviewed by senior management. It also recommended that all bank account activity be closely monitored and procedures be put in place to handle the opening and closing of bank accounts. In addition, the audit recommended that the CEO receive unopened bank statements and review the activity in the accounts before giving the statements to the Accounting Department.

NESHV Response

> *All cash accounts are being reconciled on a monthly basis as of November 2003 after substantial efforts in bringing up-to-date almost a year of unreconciled accounts. Policies and procedures are in draft to open and close all bank accounts. The policies and procedures for rep payee accounts and client "savings" accounts are in place. As of November 6, 2003 the Administrative Assistant to the CEO places all unopened bank statements into a logged envelope upon receipt and gives the envelope to the CEO. Upon opening and reviewing statements, the envelope with open statements (each date stamped when reviewed) is dated and returned to the Controller. Any questions raised by the CEO are immediately emailed to the Controller and the CFO for response, and action, if required.*

Our Audit Follow-Up/Conclusion

During our audit, we reviewed all of NESHV's cash accounts and determined that they were being reconciled on a monthly basis and the agency had drafted procedures for the opening and closing of bank accounts. We also found that NESHV had implemented procedures to ensure that the agency's CEO reviews the activity in the agency's bank accounts before giving the statements to the Accounting Department.

6. MONTH-END CLOSINGS

Accounting Firm Audit

The audit noted that NESHV did not perform month-end closing procedures during the year ended June 30, 2003. Consequently, there were numerous adjusting entries during the course of the audit. Many of the variances could not be explained and were booked as "miscellaneous" adjustments. As a result, the audit recommended that the Controller develop procedures to perform a timely month-end closing of the general ledger. The audit also recommended that (1) this process include a reconciliation of the balance sheet accounts to supporting schedules, as well as a reconciliation of the related revenue and expense accounts, and (2) the supporting schedules and records include bank reconciliations, accounts receivable, billed and unbilled revenue, debt principal and interest payments, fixed asset additions, prepaid expenses, and accrued expenses.

NESHV Response

Effective with Fiscal 2004, the Finance Committee meets the third Tuesday of the month to review and approve the previous month's financial statements and operations. As part of the routine closing process, a detailed "closing schedule" is distributed to all individuals impacting the operations to ensure financial systems are closed on a timely basis and all applicable accounts are reconciled. A new mouthy financial statement package has been developed that includes but is not limited to financial statements, supporting schedules and a narrative section providing an overview and a discussion for the critical issues relative to the finances of the Shelter.

Our Audit Follow-Up/Conclusion

During our audit, we determined that NESHV had procedures, although not in writing, to conduct month-end closings. Furthermore, we reviewed NESHV's written closing schedules and the corresponding reconciliation schedules for December 2003 and determined that month-end closings had been performed for this period. We also noted that NESHV's interim CFO reports on the results of the reconciliations and closings as presented to the Board's Finance Committee and NESHV's CEO.

7. INVENTORY LISTING

Accounting Firm Audit

The audit noted that NESHV was unable to provide a list of fixed assets detailing acquisition dates and depreciation rates. Such records serve as a useful control over physical custody of the assets and can assist in the computation of gain or loss upon sale or disposal of specific assets. Because records had not been maintained, NESHV could not identify assets that were no longer in service, in order to properly record their disposal. As a result, the audit recommended that NESHV maintain a detailed fixed asset schedule for all new fixed asset additions in fiscal year 2004 as well as locate and tag its existing assets and reconcile the assets on hand to the book values.

NESHV Response

Fixed assets were all detailed in July 2003. The acquisition dates, value and depreciation rates are not yet done. An external contractor is being sought to complete this project, preferably to be done on a pro bono basis. The search began in August 2003, and will be aggressively pursued now that resources dedicated to the reorganization and audit-

related functions, until recently, are being made available. The fixed asset system is being revised in accordance with OMB Circular A-110.

Our Audit Follow-Up/Conclusion

During our audit, we determined that NESHV had a current inventory listing; however, it did not list acquisition dates or purchase amounts. NESHV's Interim CFO stated that the agency is still attempting to hire a consultant to complete the inventory process. We also attempted to test purchases of fixed assets to determine whether they were being properly recorded in the agency's fixed asset inventory; however, NESHV had not made any purchases of fixed assets in fiscal year 2004.

8. PURCHASES

Accounting Firm Audit

The audit noted that purchase orders and invoices could not be located for several of the items selected for testing. As a result, the audit recommended that the agency develop policies and procedures for properly filing and retaining documentation for all costs incurred, and that it consistently follow those procedures.

NESHV Response

The new purchasing system, including new purchase forms, policies and procedures, does exist in draft form. The Director of Purchasing has been on short-term disability. Upon his scheduled return finalization of the new system will be the top priority. A new system of filing invoices by funding source is also under review. The new purchasing form is being integrated into the PeachTree financial software that is used by the Finance Department.

Our Audit Follow-Up/Conclusion

During our audit, we found that NESHV did not have current written policies and procedures regarding agency purchases. However, the agency did have an established process for purchasing goods and services. We reviewed the information that NESHV was maintaining regarding purchases it had made in November 2003 and selected for testing 22 of the 70 purchases that NESHV had processed. We found that all 22 purchases had the required documentation.

9. COST ALLOCATION

Accounting Firm Audit

The audit noted inconsistencies in NESHV's method of allocating costs to the various grants. In general, costs were being charged to fulfill the budgeted line items. Once the budget limits were met, costs were "shifted" from under-expended amounts to the extent allowed by the grants. As a result, the audit recommended that the agency develop a more comprehensive cost allocation plan and communicate it to the Finance Manager, and ensure that the plan be in sufficient detail to facilitate its implementation as part of the monthly grant billing process. The audit also recommended that all grant draws be reviewed for compliance with the cost allocation plan prior to being submitted to the grantors for reimbursement.

NESHV Response

The cost allocation plan was presented to DVS in Fiscal 2003 and has been in place since the beginning of FY 2004. As part of the Fiscal 2004 each department manager participated in the development of his/her departmental budget. All budgeted expenses for Fiscal 2004 have been identified by funding source with final review approval by Senior Managers. The first quarter of FY 2004 departmental budgets were distributed to senior managers on October 30, 2003. They are now responsible for managing their budgets by department, expenses category and funding source. As of November 2003, monthly expenditure reports will be distributed to assist the managers with their financial accountability, as well as keeping executive management aware of expenditure milestones met, or not.

Our Audit Follow-Up/Conclusion

We found that as of the end of our audit period NESHV had developed a formal, written cost-allocation plan for all of its indirect costs that has been approved by both the United States Department of Labor and DVS. Additionally, we reviewed how the agency was allocating indirect costs to DVS contracts during fiscal year 2003, and found that the method used was consistent with NESHV's established methodology.

10. SALARY CHANGES

Accounting Firm Audit

The audit noted that although salary/wage changes were authorized by the Finance Department they were not signed off on by the employees' immediate supervisors or the Director of Operations, and in a couple of cases a Salary Change Form was not used. As a result, the audit recommended that the Finance Department and the supervisor of the applicable department approve all salary/wage changes, to ensure that only valid salary/wage changes are entered into the payroll system.

NESHV Response

The new position requisition form was implemented in April 2003. That requisition, as well as the "New Hire" form and "Wage/Salary Change" form, require signatures of departmental supervisor, manager, finance department, grant director, and the CEO. The Human Resource Coordinator will not process the employment action unless all signatures are in place. A consolidation of forms is under review.

Our Audit Follow-Up/Conclusion

During our audit, we reviewed the files of 10 of the 19 employees whose salaries had changed during the period July 1, 2003 through December 31, 2003, and we found that each employee's Salary Change Form had been properly authorized by both the NESHV Finance Department and the employee's supervisor.

11. FINANCIAL REPORTS

Accounting Firm Audit

The audit noted that the issuance of the 2002 audited reports had been delayed, and the November 15, 2002 deadline for filing the UFR with OSD had not been met, due to NESHV's delays in providing necessary information to the independent auditors. In addition, the Single Audit report had not been filed by the reporting deadline. The audit recommended that these reports be filed in a timely manner.

NESHV Response

The Board and CEO are committed to timely audit filing. The FY 2003 financial audit, plus A-133, Form PC and Form 990, and UFR will be filed by the deadline of November 17, 2003, with no extensions requested. The cooperation of this administration with the auditors has been required by the Board and complied with by senior management.

An Audit Committee, reporting to the Finance Committee for the Board, has been appointed and is participating in the review of the fiscal year 2003 audit findings.

Our Audit Follow-Up/Conclusion

During our audit, we determined that all agency financial reports for fiscal year 2003 had been filed on time.

12. CAPITAL EXPENDITURES

Accounting Firm Prior Audit

The audit noted that between 1999 and 2002 the agency had received donations and grants amounting to $1,314,000, restricted for renovating NESHV's third-floor shelter. The actual expenditures of the project amounted to $1,347,000. As of June 30, 2003, the agency owed $137,000 to the primary contractor. This cash shortfall appears to have occurred because restricted capital funds were spent for operating purposes.

Status per Accounting Firm

> *All capital expenditures require the prior approval of both the CEO and CFO to ensure the funding source has been determined. The Finance Committee will approve any unbudgeted capital items in excess of $5,000.*

Our Audit Follow-Up/Conclusion

As noted in our comment to item No. 4 (Restricted Funds), during our audit we found that NESHV had taken measures to improve controls over the use of restricted funds.

13. PLEDGE COLLECTION

Accounting Firm Prior Audit

The audit found that the pledge collection rate was about 43%. The low collection rate appeared to result from a failure to establish follow-up policies and procedures for collecting telemarketing pledges. Failure to contact donors who have not paid their pledges results in a lost opportunity for the shelter to bring in much-needed revenue.

Status per Accounting Firm

> *The agency will strive to implement systems that reduce the incidence of "unpaid" pledges that are on the books even though a donation was made, so that the pledge collection rate accurately reflects the strong efforts at collection. Current resources limit the improvement of the database. The Agency estimates that, after accounting for the factors mentioned above, the collection rate is between 55% and 60%, which is well within the norms for charitable pledges (without premiums) made by telephone.*

Our Audit Follow-Up/Conclusion

During our audit, we found that NESHV implemented a pledge policy that stated, in part, "every pledge that is not 'paid' generates a follow up call between 21 and 42 days after the original call. In addition, all unpaid pledges receive a newsletter containing a donation card twice a year, and they are included in our fall and spring direct mail appeals." During our audit, we reviewed the documentation regarding approximately $73,000 in pledges made during August 2003 and determined that in all instances the agency had followed its established policy.

14. SUSPENDED OR DEBARRED VENDORS

Accounting Firm Prior Audit

The audit noted that no formal procedures existed for identifying suspended or debarred vendors. As a result, there was a risk of engaging in transactions with suspended or debarred parties.

Status per Accounting Firm

> *The Director of Purchasing will be reviewing the web-based federal listing of suspended and debarred vendors on a monthly basis upon his return from short-term disability. In the interim, the Executive Director of Facilities and Operations, the supervisor of the Director of Purchasing, is performing this function.*

Our Audit Follow-Up/Conclusion

During our audit, we found that NESHV has developed procedures, although not in writing, that require all staff members who want to purchase goods or services from a vendor to complete a Vendor Request Form, which is then reviewed by NESHV's Executive Director of Operations and Facilities, who compares the vendor information on the form with the federal and state governments' Web-based lists of debarred vendors. If the vendor is debarred, the Executive Director of Operations and Facilities notifies the requesting department and rejects the request to purchase goods and services from that vendor. During our audit, we randomly selected 10 vendors from whom NESHV had purchased goods and services during December 2003, and we compared that information with the state and federal governments' lists of debarred vendors. We found no debarred vendors being used by NESHV during this period.

15. COMPLIANCE WITH GRANT REPORTING REQUIREMENTS

Accounting Firm Prior Audit

The Supportive Housing Program (SHP) requires that an Annual Progress Report, Form HUD-40118, be filed with the US Department of Housing and Urban Development within 90 days after the end of the grant period. As in the prior year, Form HUD-40118 had not been dated;

therefore, the auditors were unable to determine compliance with reporting requirements. Failure to submit timely reports to granting agencies could result in the loss of grants.

NESHV Response

All correspondence and reports have been signed and dated since the arrival of the BMT [Board Management Team]. A hierarchy of authorizing signatures is in place. Grant/contract compliance requirements are being met in 95% of the cases as of the audit filing. One hundred percent compliance is the goal for FY 2004.

Management is committed to the timely, complete and accurate filing of all granting agencies' requirements. As a method of improving accountability within the Agency, all internal and external correspondence must be signed and dated. Management has already implemented a policy that requires all personnel to date all documents, correspondence, and notes. A new signature authority policy is under development.

Our Audit Follow-Up/Conclusion

During our audit we determined that all HUD reports that were required to be filed during fiscal year 2004 had been filed on time.

16. VETERAN STATUS VERIFICATION AND INTAKE FORMS

Accounting Firm Prior Audit

During the SHP grant eligibility test work, the auditors had noted that three of the 25 files reviewed contained a request for a United States military form DD-214 to verify veteran status, but the DD-214 had not been obtained. In addition, the auditors had noted that two of the 25 reviewed files did not contain a DD-214 or a request for it, and two of the 25 files did not contain signed intake forms. Although the only eligibility requirement for client receiving benefits under the SHP grant is homelessness, DVS requires verification of veteran status. Therefore, both the DD-214 and a signed intake form should be maintained in each client's files.

Status per Accounting Firm

All client records have been centralized, unified and reviewed. A new database for collecting client information is in the final stages of approval, but is operating while being debugged. Each client file is undergoing review by the case managers and Director of Clinical Services for completion and compliance.

Every file must now contain either a DD-214 or a completed application for a DD-214. Management is committed to performing a semi-annual random check of the records for DD-214 compliance. All client files must also contain a client-authorized homelessness verification form, in addition to the DD-214, addressing DVS eligibility. While all files should contain this form, in limited cases the separate, completed administrative intake form that lists assigned Agency departments that new clients must visit, has been *missing. This probably occurs because the client is required to physically transport the form to obtain department signatures during the intake process. This step in the process is being reviewed.*

Our Audit Follow-Up/Conclusion

During our audit, we selected a sample of eight client files of individuals who had received services from NESHV during November 2003. We reviewed those files and noted that all contained the required DD-214 and intake forms.

17. GRANT AND PROGRAM EXPENDITURE BUDGETING

Accounting Firm Prior Audit

The audit noted that the monthly draw had included two more employees than the number of full-time equivalent (FTE) allowed by the Veteran Workforce Investment Program (VWIP) grant budget. Total annual billing had not exceeded the amount allowed by the grant because the full cost of the additional employees was shifted to a different line item. In addition, the actual contract labor paid to the City of Worcester and the Commonwealth of Massachusetts Department of Employment and Training had been below budget by $18,797, but the agency had billed the entire budgeted amount to VWIP.

Status per Accounting Firm

Management is implementing a monthly reporting system whereby information will be distributed to the managers of the Agency's various programs. As part of the monthly reporting, managers are required to account for expenditures and any variances to budget.

Our Audit Follow-Up/Conclusion

During our audit, we verified that effective fiscal year 2004 NESHV's managers have been required to monitor grant and other program expenditures though a formal budgeting process. We also compared budgeted to actual FTEs for the six-month period ended December 31, 2003 for NESHV's programs and found no significant variances.

18. DISASTER RECOVERY PLAN

Accounting Firm Prior Audit

The audit noted that the agency did not have a disaster recovery plan. Backup tapes of the Peachtree accounting system were stored onsite daily, but there was no offsite storage of critical files.

Status per Accounting Firm

Backups of all critical files are now done nightly and weekly CD's of Peachtree are done each Saturday. All CD's are brought to an offsite bank safe deposit box for storage. There are plans to burn a CD after the year-end closing that will be stored in the safe deposit box.

Our Audit Follow-Up/Conclusion

During our audit, we determined that NESHV had disaster recovery procedures, although not in writing, and was following them by backing up agency records and storing them offsite.

19. RECORDING OF CLIENT DATA

Accounting Firm Prior Audit

Certain grants funded by the McKinney Fund, such as Project Access and Inreach, require that online reporting of client data be submitted on Service Point. In addition, the agency has an internally developed management information system for client service data. Service Point is certified, free, and supported and could be used to track most of the client service data for all programs. The audit found, however, that the client service staff was required to enter client data into both systems.

Status per Accounting Firm

An integration of the Agency's database with Service Point is being investigated. The Agency utilizes over ten separate federal, state and local funding sources, each with distinctive client data reporting criteria. Standardization of data collection is a difficult and elusive goal. Service Point alone will not meet the data collection and reporting needs of several other government grant programs. Management has developed a prototype central database system, which is under field-testing, which would collect, maintain and report all needed program data. This system is congruent with Service Point, not duplicative, and would facilitate Service Point reporting without separate data entry functions.

The Agency is moving toward maximizing electronic capabilities within the restricted resources available for such endeavors. Many Agency forms are already accessible *electronically. Eventually purchase ordering will be electronic with electronic communication of data with sponsors and vendors an Agency goal.*

Our Audit Follow-Up/Conclusion

During our audit we discussed this matter with NESHV's interim CFO, who stated that this condition still exists but the agency is taking actions to address it.

20. PAYROLL INCREASES

Accounting Firm Prior Audit

The audit noted that total payroll had increased 20% over the prior year's total and advised that in the absence of a documented increase in revenue, justification for the payroll increase should have been provided to, and approved by, the Board.

Status per Accounting Firm

The new time and effort reporting system, and salary/wage payroll change system will provide the data required to assure appropriate budgeting and necessary modifications thereof in the future. New revenue sources are being explored. A complete program review is underway with respect to payroll.

Our Audit Follow-Up/Conclusion

During our audit, we found that the agency has adopted a policy of informing the agency's Board of Directors of any material changes in agency expenses, revenues, or other operational issues.

APPENDIX B

NESHV's Organization as of June 30, 2003

NESHV is a charitable nonprofit corporation formed to provide a variety of social services to veterans. NESHV's administrative offices are located at 17 Court Street, in Boston. As of June 30, 2003, Diane Gilbert was NESHV's Chief Executive Officer; Kevin Ward was its Interim Chief Financial Officer; and the Board of Directors consisted of the following persons:

Mr. Joseph J. Albanese
Chairman, Nominating Committee
130 Rumford Ave. Suite 108
Newton, MA 02466

Mr. Joseph E. Caouette
National Homeless Veterans Committee
Veterans of Foreign Wars of the US
130 Edenfield Ave.
Watertown, MA 02472

Mr. Christian W. Dame
Project Management Group, Inc.
645 Center Street
Newton, MA 02458

Mr. Wayne Dennison, Secretary
Brown Rudnick Berlack Israels, LLP
One Financial Center
Boston, MA 02111

Mr. Peace A. Foxx, Jr.
Chairman, Client Service Committee
Founder & PTSD Counselor
Vietnam Veterans Workshop, Inc.
36 Choctaw Street
Buzzard's Bay, MA 02532

Mr. Don Gillis
Mass. Workforce Board Association
15 Court Square
Boston, MA 02108

Mr. Richard Griffin
Chairman of the Board
Peterson/Griffin Architects, LTD
220-28 Reservoir Street
Needham, MA 02494

Mr. Eric J. Letendre
Vice President and Chairman Development Committee
Merrill Lynch
54 Irving Street
Arlington, MA 02476

Ms. Anna Likely
American Gold Star Mothers
77 Newell Road
Auburndale, MA 02466

Mr. Dennis Walsh
Treasurer and Chairman Finance Committee
KPMG, LLP
99 High Street
Boston, MA 02110

APPENDIX C

Vietnam Veterans Workshop, Inc., d/b/a New England Shelter for Homeless Veterans
Response to Independent State Auditor's Report, The Commonwealth of Massachusetts
July 1, 2002 through December 31, 2003
NO. 2004-4365-3C

The thoroughness, professionalism, effectiveness and patience of the State Audit Team working on the above-cited audit have been greatly appreciated by the staff of the Shelter. When the Shelter received notification that the Commonwealth of Massachusetts Auditors would be conducting a compliance audit of the organization, it was hoped that this process would provide an opportunity to make public the significant changes that have occurred in the business operations of the Shelter since March 2003. The draft audit report that has just been reviewed by the CEO and interim CFO can be described as a fair and balanced report of some of those changes.

Since the resignation of the Executive Director in February 2003 and the termination of the Chief Financial Officer in April 2003, the Board Management Team and, subsequently, Chief Executive Officer of the New England Shelter for Homeless Veterans, have functioned, under the direction of the Board of Directors, with a single driving focus: To provide optimal services for homeless and under- and unemployed veterans while continuously assessing the risk and exposure of the daily operations, and instituting immediate corrective action wherever and whenever needed. As a result, a number of the dramatic changes and improvements implemented over the last 10 months have not, as of this date, been committed to formal written presentation in the internal control policy, but, nevertheless are being followed and adhered to as if codified. Time constraints, including a total reorganization of the Shelter at all levels and in all areas, and the need for immediate change preempted the rewriting of the internal control policy.

As part of the Shelter's commitment to continued improvement, a draft of a new internal control policy will be presented to the Board's Finance Committee no later than April 17, 2004. Incorporated into this draft will be the formal written policies for any procedures identified by the Commonwealth's Auditors as implemented/followed with no formal written policy in place. The internal control document will then be presented to the Board at its April meeting and, following Board comments/approval, will be distributed to the staff and sponsors.

The Shelter has gone through an important evolution since March 2003. The delayed FY 2002 audit was finally completed on May 15, 2003. The FY 2003 audit was completed on time on November 15, 2003. Both opinions were clean and unqualified. The deficiencies cited in the management letters have been responded to with decisive action and productive results, as addressed in the State Auditor's conclusions. The executive management of the Shelter is new. The strong Board of Directors that led the Shelter in 2003 has several new members and officers from the business world, and an Advisory Board has been created, as well as a new Board Committee for Audit, Program and Legal.

As stated by the auditors, the Shelter provides more services than funded for by governmental entities. This situation cannot continue. It is hoped that additional funding will be identified so that services do not have to be curtailed, and the number of veterans for whom services are provided reduced. The Shelter will continue to pursue its mission, but can only do so in the fiscally responsible manner now in operation. That is what we owe our sponsors and donors, and, most importantly, that is what our clients deserve.

Diane C. Gilbert, CRA
Chief Executive Officer

Kevin A. Ward, CHFP, CMPA
Interim Chief Financial Officer