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COMMUNITY PARTNERS, INC.

SINGLE AUDIT REPORTS AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2017

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REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Partners, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Community Partners, Inc. (the "Organization"), which comprise the consolidated balance sheet as of September 30, 2017, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 28, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.



A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Organization's Response to Findings

The Organization's response to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over compliance. This report is an integral part of an audit performed in accordance *with Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
February 28, 2018



Keegan, Linscott & Kenon, PC

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Partners, Inc.

Report on Compliance for Each Major Federal Program

We have audited Community Partners, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2017. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.



Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-004 through 2017-008. Our opinion on each major federal program is not modified with respect to these matters.

The Organization's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-004 through 2017-008, that we consider to be significant deficiencies.

The Organization's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Organization as of and for the year ended September 30, 2017, and have issued our report thereon dated February 28, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
February 28, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United State of America Unmodified

Internal control over financial reporting:

Material weakness(es) identified?..... Yes

Significant deficiency(ies) identified?..... Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major program:

Material weakness(es) identified?..... No

Significant deficiency(ies) identified?..... Yes

Type of auditor’s report issued on compliance for major programs..... Unmodified

Any audit findings disclosed, which are required to be reported in accordance with section 2 CFR 200.516(a)? Yes

Identification of major programs:

CFDA Number	Title of Federal Program or Cluster
14.267	Continuum of Care Program
14.238	Shelter Plus Care

Dollar threshold used to distinguish between type A and type B programs.\$750,000

Auditee qualified as low-risk? Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017 (CONTINUED)

SECTION II – FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provision of contracts and grant agreements, and abuse related to the consolidated financial statements for which *Government Auditing Standards* require reporting.

2017-001: Ensure Proper Revenue Recognition in Accordance with U.S. GAAP and Enhance Tracking of Payments Received – Material Weakness

During our audit of revenue and accounts receivable, we noted commercial fee-for-service revenue and RBHA fee-for-service revenue was recorded in the period when the payment was received instead of when the service was performed. In addition, we noted revenue payments were not properly posted in the claim tracking systems; therefore, management was unable to reconcile payments received per the bank to payments received per the claim tracking system.

Also, during our audit, we noted there was no analysis performed over claims outstanding in the claim tracking system subsequent to year end to ensure claims were collectible. Upon further analysis, it was determined that account receivable was overstated which also resulted in an overstatement of revenue.

Per U.S. GAAP, revenue should be recognized in the financial statements when amounts are realized or realizable and earned. Proper revenue recognition is imperative to ensure financial statements are materially accurate and in accordance with U.S. GAAP.

Recommendation: We recommend management enhance the tracking of payments received against the claims in the claim tracking system to ensure revenue is recorded in the proper period. In addition, we recommend management perform an analysis over the claims outstanding after year end and either write off claims or record an allowance for doubtful accounts for claims deemed uncollectible.

View of Responsible Officials:

We are in agreement with the finding and are in the process of updating our procedures to mitigate issues in the future.

2017-002: Enhance Procedures over Year-End Close Process and Consolidation Process – Significant Deficiency (Partially Repeated from Prior Year)

During our audit, we noted several instances whereby certain intercompany transactions had not been identified and eliminated or had not been eliminated fully within the year end consolidated internal financial statements. In addition, there were a significant number of adjustments necessary for the financial statements to be materially accurate and in accordance with U.S. GAAP. There were 32 adjusting journal entries posted to the original trial balance provided at the beginning of the audit. Of the 32 entries, 8 were provided by the client and 24 were the result of audit procedures performed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017 (CONTINUED)

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-002: Enhance Procedures over Year-End Close Process and Consolidation Process – Significant Deficiency (Partially Repeated from Prior Year) (continued)

Recommendation: We recommend management enhance procedures over Year-End close process to ensure all journal entries are posted to the trial balance within a timely manner. In addition, we recommend management develop a process to ensure all eliminating entries are identified and recorded in the full amount in the consolidating spreadsheet. To help streamline this process accounts should be set up in the accounting system to track intercompany transactions as well as eliminating entries should be recorded at the entity account level within the trial balance instead of a top side entry.

View of Responsible Officials:

We are in agreement with the finding and are in the process of updating our procedures to mitigate issues in the future.

2017-003: Enhance Review Procedures to Ensure Supporting Schedules Reconcile to the Trial Balance – Significant Deficiency

During our audit, we noted several instances whereby supporting schedules provided did not reconcile to the trial balance. Management was unable to reconcile the schedules in a timely manner, which resulted in a significant delay in the audit. Upon further investigation, management noted the balances within the trial balance were incorrect, which resulted in several adjusting journal entries to correct the errors.

The following schedules provided during the audit did not reconcile to the trial balance which resulted in adjusting entries to the trial balance:

- Gross Payroll Report per Ceridian.
- Accrued PTO Schedule per Ceridian.
- Fixed Asset Rollforward.
- AHW Bank Reconciliation.
- CPCC Retained Earnings Not Agreeing to Prior Year Audited Trial Balance.

Recommendation: We recommend management enhance review procedures to ensure supporting schedules reconcile to the trial balance. Differences should be investigated timely to ensure trial balance is complete and accurate.

View of Responsible Officials:

We are in agreement with the finding and are in the process of updating our procedures to mitigate issues in the future.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017 (CONTINUED)

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

This section identifies audit findings required to be reported by the 2 CFR 200.51b(a), including significant deficiencies, material weaknesses, and material instance of noncompliance, including questioned costs, and material abuse.

2017-004: Activities Allowed or Unallowed, Control Activities (Significant Deficiency) and Compliance

Federal Agency:	U.S. Department of Housing and Urban Development (“HUD”)
Program Title:	Continuum of Care (“COC”) Program
CFDA Number:	14.267
Federal Award Source:	Pass-Through
Pass-Through Entity:	Arizona Department of Housing
Pass-Through Identifying Number:	Contracts 557-17, 516-17,549-17 and 509-17

Criteria – HUD’s COC program rules state that the Organization is required to maintain separate case records for each individual serviced by the program, including specific items such as initial eligibility documentation, program application, executed lease agreements, and documentation related to required annual re-certification of tenant income and safety inspection of the rental property. In addition, the Uniform Guidance requires entities receiving Federal awards to establish and maintain internal controls that are designed to reasonably ensure compliance with Federal laws, regulations, and program compliance. Further, the Uniform Guidance defines internal control as “a process, effected by an entity’s management and personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.”

Condition – During our audit of the COC program, we identified the following during our testing of activities allowed or unallowed: tenant case file documentation was incomplete with respect to required items for documentation related to (1) required annual re-certifications of tenant income for 2 of the 45 tenant case files tested, (2) executed lease agreements for 3 of the 45 tenant case files tested, and (3) tenant signed rental application for 1 of the 45 tenant case files tested.

Cause and Effect - This finding was the result of an internal control breakdown with respect to the retention of case records and documentation in accordance with the program requirements. Not maintaining appropriate case records for each individual in the program and lack of a detailed review of tenant case files could lead to unsupported and/or fraudulent amounts billed under the contracts.

Questioned Costs – From the \$24,775 of costs tested, we noted \$1,015 in known questioned costs, which represented 4.1% of the tested costs, that were not adequately supported due to missing required annual re-certifications of tenant income to determine the appropriate amount of rental assistance. Furthermore, we estimated potential likely questionable costs to be \$82,164 after projecting the known questioned costs over \$2,003,989 of the total untested program costs for the year ended September 30, 2017.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017 (CONTINUED)

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (CONTINUED)

2017-004: Activities Allowed or Unallowed, Control Activities (Significant Deficiency) and Compliance (continued)

Recommendation – We recommend the Organization implement policies and procedures to improve the retention and maintenance of required documentation within the tenant case files.

View of Responsible Officials:

We agree with the finding. A corrective action plan will be prepared to address the deficiencies with appropriate policies and procedures to mitigate issues in the future.

2017-005: Activities Allowed or Unallowed, Control Activities (Significant Deficiency) and Compliance

Federal Agency:	U.S. Department of Housing and Urban Development (“HUD”)
Program Title:	Shelter Plus Care (“SPC”)
CFDA Number:	14.238
Federal Award Source:	Pass-Through
Pass-Through Entity:	City of Tucson
Pass-Through Identifying Number:	Contracts 18327, 18507, 18330 and 18511

Criteria – Under the City of Tucson’s grant agreements for the SPC program the Organization is required to maintain separate case records for each individual serviced by the program, including specific backup documentation, as defined in the grant agreements. In addition, the Uniform Guidance requires entities receiving Federal awards to establish and maintain internal controls that are designed to reasonably ensure compliance with Federal laws, regulations, and program compliance. Further, the Uniform Guidance defines internal control as “a process, effected by an entity’s management and personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.”

Condition – During our audit of the SPC program, we identified the following during our testing of activities allowed or unallowed: tenant case file documentation was incomplete with respect to required items for documentation related to (1) required annual re-certifications of tenant income for 4 of the 42 tenant case files tested, (2) executed lease agreements for 4 of the 42 tenant case files tested, (3) tenant signed rental application for 2 of the 42 tenant case files tested, (4) program housing inspection form for 2 of the 42 tenant case files tested, and (5) documentation related to the homelessness management information systems (HMIS) entry form for 5 of the 42 tenant case files tested.

Cause and Effect - This finding was the result of an internal control breakdown with respect to the retention of case records and documentation in accordance with the program requirements. Not maintaining appropriate case records for each individual in the program and lack of a detailed review of tenant case files could lead to unsupported and/or fraudulent amounts billed under the contracts.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017 (CONTINUED)

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (CONTINUED)

2017-005: Activities Allowed or Unallowed, Control Activities (Significant Deficiency) and Compliance (continued)

Questioned Costs – From the \$19,686 of costs tested, we noted \$1,061 in known questioned costs, which represented 5.4% of costs tested, that were not adequately supported due to missing required annual re-certifications of tenant income to determine the appropriate amount of rental assistance. Furthermore, we estimated potential likely questionable costs to be \$31,197 after projecting the known questioned costs over \$577,722 of the total untested program costs for the year ended September 30, 2017.

Recommendation – We recommend the Organization implement policies and procedures to improve the retention and maintenance of required documentation within the tenant case files. In addition, we recommend the Organization implement policies and procedures to improve the periodic review of tenant case files for appropriate case records for each individual in the program.

View of Responsible Officials:

We agree with the finding. A corrective action plan will be prepared to address the deficiencies with appropriate policies and procedures to mitigate issues in the future.

2017-006: Eligibility, Control Activities (Significant Deficiency) and Compliance

Federal Agency:	U.S. Department of Housing and Urban Development (“HUD”)
Program Title:	Continuum of Care (“COC”) Program
CFDA Number:	14.267
Federal Award Source:	Pass-Through
Pass-Through Entity:	Arizona Department of Housing
Pass-Through Identifying Number:	Contracts 557-17 and 516-17

Criteria – HUD’s COC program rules state that the Organization is required to maintain separate case records for each individual serviced by the program, including specific items such as initial eligibility documentation. In addition, the Uniform Guidance requires entities receiving Federal awards to establish and maintain internal controls that are designed to reasonably ensure compliance with Federal laws, regulations, and program compliance. Further, Uniform Guidance defines internal control as “a process, effected by an entity’s management and personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.”

Condition – During our audit of eligibility we identified 1 of 45 tenant case files tested, where the supporting documentation of the individual’s homelessness was not maintained in the tenant case file. In order to be eligible for the program, an individual must be homeless and disabled. The Organization must maintain appropriate documentation to support the individual’s homelessness, as defined by the COC program rules.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017 (CONTINUED)

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (CONTINUED)

2017-006: Eligibility, Control Activities (Significant Deficiency) and Compliance (continued)

Cause and Effect - This finding was the result of an internal control breakdown with respect to the retention of case records and documentation in accordance with the program requirements. Not maintaining appropriate case records for each individual in the program and lack of a detailed review of tenant case files could lead to unsupported and/or fraudulent amounts billed under the contracts.

Questioned Costs – From the \$24,775 of costs tested, we noted \$419 in known questioned costs, which represented 1.7% of costs tested, that were not adequately supported due to the missing documentation related to eligibility. Furthermore, we estimated potential likely questionable costs to be \$34,068 after projecting the known questioned costs over \$2,003,989 of the total untested program costs for the year ended September 30, 2017.

Recommendation – We recommend the Organization implement policies and procedures to improve the retention and maintenance of case files, including documentation related to the eligibility of the individual.

View of Responsible Officials:

We agree with the finding. A corrective action plan will be prepared to address the deficiencies with appropriate policies and procedures to mitigate issues in the future.

2017-007: Eligibility, Control Activities (Significant Deficiency) and Compliance

Federal Agency:	U.S. Department of Housing and Urban Development (“HUD”)
Program Title:	Shelter Plus Care (“SPC”)
CFDA Number:	14.238
Federal Award Source:	Pass-Through
Pass-Through Entity:	City of Tucson
Pass-Through Identifying Number:	Contracts 18327 and 18507

Criteria – HUD’s SPC program rules state that the Organization is required to maintain separate case records for each individual serviced by the program, including specific items such as initial eligibility documentation. In addition, the Uniform Guidance requires entities receiving Federal awards to establish and maintain internal controls that are designed to reasonably ensure compliance with Federal laws, regulations, and program compliance. Further, Uniform Guidance defines internal control as “a process, effected by an entity’s management and personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.”

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017 (CONTINUED)

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (CONTINUED)

2017-007: **Eligibility, Control Activities (Significant Deficiency) and Compliance (continued)**

Condition – During our audit of eligibility we identified 1 of 42 tenant case files tested, where the supporting documentation of the individual’s homelessness was not maintained in the tenant case file. In order to be eligible for the program, an individual must be homeless and disabled. The Organization must maintain appropriate documentation to support the individual’s homelessness and disability, as defined by the SPC program rules.

Cause and Effect - This finding was the result of an internal control breakdown with respect to the retention of case records and documentation in accordance with the program requirements. Not maintaining appropriate case records for each individual in the program and lack of a detailed review of tenant case files could lead to unsupported and/or fraudulent amounts billed under the contracts.

Questioned Costs – From the \$19,686 of costs tested, we noted \$1,231 in known questioned costs, which represented 6.3% of costs tested, that were not adequately supported due to the missing documentation related to eligibility. Furthermore, we estimated potential likely questionable costs to be \$36,396 after projecting the known questioned costs over \$577,722 of the total untested program costs for the year ended September 30, 2017.

Recommendation – We recommend the Organization implement policies and procedures to improve the retention and maintenance of case files, including documentation related to the eligibility of the individual. In addition, we recommend the Organization implement policies and procedures to improve the periodic review of tenant case files for appropriate case records for each individual in the program.

View of Responsible Officials:

We agree with the finding. A corrective action plan will be prepared to address the deficiencies with appropriate policies and procedures to mitigate issues in the future.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017 (CONTINUED)

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (CONTINUED)

2017-008: Allowable Costs/Cost Principles, Control Activities (Significant Deficiency) and Compliance

Federal Agency:	U.S. Department of Housing and Urban Development (“HUD”)
Program Title:	Shelter Plus Care (“SPC”)
CFDA Number:	14.238
Federal Award Source:	Pass-Through
Pass-Through Entity:	City of Tucson
Pass-Through Identifying Number:	Contracts 18327 and 18507

Criteria – Title 2 of the Code of Federal Regulations, Part 200, states that costs should be adequately documented in order for them to be allowable. In addition, the Uniform Guidance requires entities receiving Federal awards to establish and maintain internal controls that are designed to reasonably ensure compliance with Federal laws, regulations, and program compliance. Further, the Uniform Guidance defines internal control as “a process, effected by an entity’s management and personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.”

Condition – During our audit of the SPC program we noted a tenant’s calculated rental assistance amount did not agree to the monthly billing submitted to the City of Tucson for 1 of the 42 tenant case files tested.

Cause and Effect - This finding was the result of an internal control breakdown with respect to the review and approval of monthly billings. A lack of a detailed review and approval of monthly billings could lead to unsupported and/or fraudulent amounts billed under the contracts.

Questioned Costs – From the \$19,686 of costs tested, we noted \$46 in known questioned costs, which represented 0.2% of costs tested, due to the difference between the calculated rental assistance amount and the monthly billing to the City of Tucson for 1 of the 42 tenant case files tested. Furthermore, we estimated potential likely questionable costs to be \$1,155 after projecting the known questioned costs over \$577,722 of the total untested program costs for the year ended September 30, 2017.

Recommendation – We recommend that one individual be responsible for preparing each monthly billing and that a separate individual be responsible to perform an independent review and approval of each billing comparing amounts billed to source documents for accuracy and that this review and approval be evidenced via signature (or initials) and the date of review on the billing. A copy of each billing should be maintained to evidence the control is operating as intended.

View of Responsible Officials:

We agree with the finding. A corrective action plan will be prepared to address the deficiencies with appropriate policies and procedures to mitigate issues in the future.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development Programs ("HUD")				
Continuum of Care Program	14.267 *	N/A	\$ 322,788	\$ 708,870
Passed Through the Arizona Department of Housing				
Continuum of Care Program	14.267 *	509-17 / 549-17, 516-17 / 557-17, 508-17 / 550-17	-	1,453,698
Total for Program			<u>322,788</u>	<u>2,162,568</u>
Passed Through the City of Tucson				
Community Development Block Grants ("CDBG")/Special Purpose Grants/Insular Areas	14.225	18325 / 18475	-	41,047
Total for CDBG - Entitlement Grants Cluster			<u>-</u>	<u>41,047</u>
Passed Through the City of Tucson				
Shelter Plus Care	14.238 *	18327 / 18507, 18330 / 18511	-	597,408
Total for Program			<u>-</u>	<u>597,408</u>
Total HUD Programs			<u>322,788</u>	<u>2,801,023</u>
U.S. Department of Health and Human Services ("HHS")				
Passed Through Substance Abuse and Mental Health Administration				
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	5H79SM062179-02	45,687	144,406
Total for Program			<u>45,687</u>	<u>144,406</u>
Passed Through Cenpatico Integrated Care				
Block Grants for Community Mental Health Services	93.958	Unknown	-	78,932
Total for Program			<u>-</u>	<u>78,932</u>
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Unknown	-	92,140
Total for Program			<u>-</u>	<u>92,140</u>
Total HHS Programs			<u>45,687</u>	<u>315,478</u>
Total Expenditures of Federal Awards			<u>\$ 368,475</u>	<u>\$ 3,116,501</u>

*Denotes major program

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("SEFA") includes the federal award activity of the Organization under programs of the federal government for the year ended September 30, 2017. The information in the SEFA is presented in accordance with the requirements of the Uniform Guidance. Because the SEFA presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Organization has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.