



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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February 5, 2007

Ms. Christy Thomas
Executive Director
Sheltered Aid to Families in Emergencies, Inc.
PO Box 445
Wilkesboro, North Carolina 28697

Dear Ms. Thomas:

We have completed certain limited procedures listed below at the Sheltered Aid to Families in Emergencies, Incorporated (SAFE) related to its management of State grant funds. Our objective was to identify deficiencies in internal control; instances of noncompliance with laws, regulations, and provisions of contracts or grants agreements; and/or deficiencies in the management of financial resources based solely on the performance of these procedures.

These procedures do not constitute an audit, examination or a review as described in professional standards governing those types of services. Furthermore, our procedures were not agreed upon by you or any third party. Our procedures do not provide a basis for providing any level of assurance regarding internal control, compliance or financial management and should not be relied upon for that purpose.

Specifically, our procedures consisted of the following:

- Interviewing personnel;
- Examining accounting records for the purpose of identifying State grant transactions;
- Examining documentation supporting selected transactions and balances;
- Reviewing available policies and procedures;
- Reviewing available board minutes

The results of these procedures disclosed internal control deficiencies, instances of noncompliance and/or other matters of concern that are described in the attached findings and recommendations. You were provided a draft of the findings and your written response is included as part of this final letter.

This letter is intended solely for the information and use of the board of directors, management of the Sheltered Aid to Families in Emergencies, Inc., the Governor, the General Assembly, and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Leslie W. Merritt, Jr." in a cursive script.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

LWMjr/jhp

Attachment

Cc: Secretary Carmen Hooker Odom
Department of Health and Human Resources
Secretary Britt Cobb
Department of Administration
Secretary Bryan E. Beatty
Department of Crime Control and Public Safety
Ms. Jacqueline Jordan, Grants Administrator
Department of Administration
Ms. Laketha Miller, Controller
Department of Health and Human Resources
Ms. Kathy Crooke, Chief Fiscal Officer
Department of Administration
Mr. Wes Walters
Department of Crime Control and Public Safety

**Sheltered Aid to Families in Emergencies, Inc.
FINDINGS AND RECOMMENDATIONS**

1. SAFE DID NOT HAVE AN ADEQUATE CHART OF ACCOUNTS.

All monies received by the grantee are deposited in one checking account, thereby co-mingling the State grant funds with all other sources of revenue the grantee receives. While the use of one account is not a problem in and of itself, the grantee's chart of accounts does not allow the tracking of expenditures by funding source. This results in the inability to determine which expenditures are supported by which funding source.

Recommendation:

SAFE should design and implement a revised chart of accounts that will allow expenditures be to be linked to funding source. This will allow the clear identification of State grant expenditures and will allow reviewers of those expenditures to determine that they were made in conformance with the terms of the grant contract.

2. TESTING REVEALED WEAKNESSES IN THE APPLICATION OF INTERNAL CONTROLS AT SAFE.

During the on-site work, we reviewed a sample of expenditures for the grantee's current fiscal year. The sample included 33 checks written during the period January – December 5, 2006. We tested the expenditures against what was allowed by the grant agreements, existing policies and procedures, and where there were no policies, what State policies would allow. Of the 33 sample items, we noted the following:

- 30 of 33 (91%) expenditures did not indicate that they had been approved by management prior to being paid;
- 6 of the 33 (18%) expenditures did not have any supporting documentation such as invoice or receipt to support payment;
- 11 of the 33 (33%) invoices had not been effectively canceled to prevent duplicate payment; and
- 32 of 33 (97%) expenditures could not be determined reasonable because of lack of documentation or inadequate documentation supporting the expenditure, including:
 - \$358.19 reimbursed to staff for meals for meetings (State funds cannot pay for meals for employees), and
 - \$1,635.71 for taxes and penalties (State funds cannot be used to pay for tax penalties).

The lack of documentation did not allow us to determine whether these questioned expenditures were made with State funds. SAFE does receive funding from other sources. However, weaknesses in internal controls such as these can lead to misappropriation of assets or errors in the payment of expenditures. The current executive director is aware of these deficiencies and has already begun taking corrective action.

Recommendation:

The executive director should continue to assess the existing internal controls and implement measures to strengthen them, concentrating on the specific problems noted above. The board of directors should review the revised procedures and assure itself that the changes will protect SAFE's assets.

3. ALL POLICIES AND PROCEDURES ARE NOT COMPLETE AND UP-TO-DATE.

At the time of on-site work, the existing policies and procedures followed by the grantee were not dated, were not complete or up-to-date. SAFE had operated for approximately four months with an interim executive director/consultant. A permanent executive director was hired at the beginning of November. The executive director is in the process of re-writing the policies and procedures. As of December 5, 2006, the personnel policies and procedures had been re-written and approved by the board of directors. All other policies and procedures being used are those that existed prior to the hiring of the new executive director. Outdated or incomplete policies and procedures can lead to confusion and/or the inconsistent enforcement of those policies.

Recommendation:

The new executive director should make it a priority to re-write and update all policies and procedures with input from the current board. After each section is completed, the executive director should submit these proposed policies and procedures to the full board for consideration and approval. Once approved, the policies and procedures should be immediately implemented.

S.A.F.E., Inc.
Sheltered Aid to Families in Emergencies
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January 25, 2007

Mr. Leslie Merritt, Jr.,
State Auditor
Office of the State Auditor
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Merritt:

Upon receiving the draft detailing the findings and recommendations from your recent visit to SAFE, Inc., I appreciated the opportunity to respond to the three areas of concern and the incidences mentioned. Following this cover letter, I describe what has already been implemented and/or what will be done to address these problems.

However, I wish to preface these corrective actions by reiterating statements made in your draft. SAFE, Inc. hired a new executive director November 1, 2006. This was preceded by four months of operations under an interim director and consultant.

While this turnover is by no means an excuse for the incidences discovered during your visit, it should be understood that practically all of your findings relate to a period of time before the dismissal of the previous executive director. In fact, it was those types of incidences your team found that lead to lack of confidence vote by the Board of Directors and the inevitable firing of that executive director.

In other words, SAFE, Inc. has been working towards correcting our internal control problems long before your December 5, 2006 visit. Ironically, during the last six months (1) SAFE, Inc.'s chart of accounts was expanded and improved, (2) a stricter level of internal controls was put into practice, and (3) a newly revised and dated Personnel Policies and Procedures was approved. Sadly, all these efforts were insufficient resulting in your findings and recommendations.

Please review SAFE, Inc.'s corrective actions. It is my hope that working together, we will implement measures that improves our system while meeting the needs of all concerned.

Sincerely,



Kristi Thomas
Executive Director

Sheltered Aid to Families in Emergencies, Inc.
FINDINGS AND RECOMMENDATIONS

1. SAFE DID NOT HAVE AN ADEQUATE CHART OF ACCOUNTS.

The finding is referencing the co-mingling of State grant funds with all other sources of revenue and the inability to track expenditures with funding sources. At the time of this visit (December 5, 2006), I also thought that a further expanding chart of accounts would be the solution to this already perceived problem. However, after a quick survey of other domestic violence agencies, I found that this problem is best addressed not with an expanded chart of accounts, but with a separate spreadsheet used along side our computerized accounting system.

2. TESTING REVEALED WEAKNESSES IN THE APPLICATION OF INTERNAL CONTROLS AT SAFE.

A copy of our Internal Control policy was required by the North Carolina Council for Women, Domestic Violence Commission for their January 20, 2007 semi-annual reporting. SAFE, Inc. used this as an opportunity to revise our existing Internal Control policy. The new policy addresses all the failure situations indicated – from the approval process to appropriate expenditure reimbursement.

3. ALL POLICIES AND PROCEDURES ARE NOT COMPLETE AND UP-TO-DATE.

Again, for the North Carolina Council for Women, Domestic Violence Commission January 20, 2007 semi-annual reporting, copies of four of SAFE Inc.'s policies were requested (Internal Control, Organizational Code of Conduct, Recordkeeping, and Whistleblower) and we used this as an opportunity to develop a book that would include all policies. While currently limited in number sections with most of the policies included in the 22 page Personnel Policies, as changes are needed, individual policies will be removed and a section created and entered onto the Table of Contents page and thusly decreasing the size and improving the manageability of the Personnel Policies section. There are three copies of this notebook – an office copy, a shelter copy, and a Director's copy which include notations of eventual revisions. The Director's copy also includes personnel sign-off sheets indicating that they have read and understand the latest policy and/or revision.

Coincidentally, in December 2006, I contacted Mr. Mike Zimmers from your office requesting a procedural type class to be held in my area. Apparently there was one held shortly after I was hired in November 2006 and Mr. Zimmers indicated it would be mid-year before there would be another one.