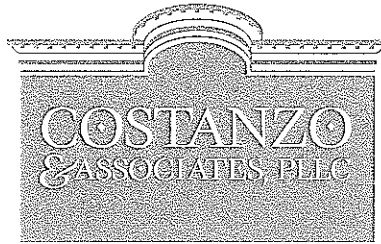


YOUTH SERVICES SYSTEM, INC.
REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2009

DHHR - Finance

FEB 18 2010

Date Received



Certified Public Accountants

1341 National Road
P.O. Box 2050
Wheeling, WV 26003-0251
Voice: 304-242-4400
Fax: 304-242-1989
E-mail: lcostanzo@costanzocpas.com
Web Site: www.costanzocpas.com

February 9, 2010

WV Department of Health & Human Resources
Office of Accountability and Management Reporting
Division of Compliance and Monitoring
Capitol Complex, Building 3, Room 550
Charleston, WV 25305

Re: Youth Services System, Inc.

WV DHHR Division of Compliance and Monitoring:

Enclosed is a copy of the audited financial statement of Youth Services System, Inc for the year ended June 30, 2009

Should you have any additional questions, please do not hesitate to contact our office.

Sincerely,

Brian D. Trischler, CPA, MSA

DHHR - Finance

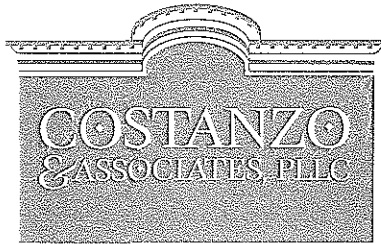
Enclosures

FEB 18 2010

Date Received

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Youth Services System, Inc. :

We have audited the accompanying statement of financial position of Youth Services System, Inc. (a nonprofit organization) as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Youth Services System, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2010 on our consideration of Youth Services System, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Youth Services System, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and Schedule of West Virginia State Grant Receipts and Expenditures for the

Youth Services System, Inc.

Page Two

February 9, 2010

year ended June 30, 2009, are presented for purposes of additional analysis as required by U.S. Office of Management and Budget A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and WV Code §12-4-14 and CSR §148-18, respectively, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Costanzo & Associates, PLLC

Costanzo & Associates, PLLC

Wheeling, WV

February 9, 2010

DHHR - Finance

FEB 18 2010

Date Received

YOUTH SERVICES SYSTEM, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

ASSETS:

Cash	\$ 74,516
Restricted cash	14,204
Unconditional promises to give	6,797
Accounts receivable	657,769
Prepaid expenses	47,433
Investments at fair market value	1,856
Other assets	137,396
Property and equipment	<u>1,608,917</u>
Total assets	<u><u>\$ 2,548,888</u></u>

LIABILITIES:

Accounts payable	\$ 274,268
Accrued payroll and other liabilities	421,970
Line of credit	214,741
Refundable advances	51,021
Accrued interest payable	934
Capital leases payable	47,867
Long-term debt	<u>875,694</u>
Total liabilities	<u>1,886,495</u>

NET ASSETS:

Unrestricted	409,517
Temporarily restricted	31,676
Permanently restricted	<u>221,200</u>
Total net assets	<u>662,393</u>

Total liabilities and net assets \$ 2,548,888

The accompanying notes are an integral part
of the financial statements.

YOUTH SERVICES SYSTEM, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and support				
Fees from government agencies	\$ 3,144,484	\$	\$	\$ 3,144,484
Grants and contracts from government agencies	2,922,915	4,000		2,926,915
Other grants	4,281			4,281
Contributions from the public	130,852	40,167		171,019
Other contract income	3,750	9,063		12,813
Special events fundraisers	\$ 13,992			
Less costs of direct benefits to donors	<u>(6,804)</u>	7,188		7,188
Gain on disposal of equipment	1,125			1,125
Investment loss	(1,235)			(1,235)
Rental income	30,134			30,134
Dividend and interest income	<u>1,128</u>			<u>1,128</u>
Total support, revenues and other gains	6,244,622	53,230		6,297,852
Net assets released from restrictions and other	<u>53,345</u>	<u>(53,345)</u>		
Total support, revenues, gains and reclassifications	<u>6,297,967</u>	<u>(115)</u>		<u>6,297,852</u>
Expenses				
Program services				
Residential services	3,108,219			3,108,219
Client services	1,235,570			1,235,570
Community-based services	664,623			664,623
Other program services	460,277			460,277
Supporting services				
Management and general	<u>958,208</u>			<u>958,208</u>
Total expenses	<u>6,426,897</u>			<u>6,426,897</u>
Change in net assets	(128,930)	(115)		(129,045)
NET ASSETS, BEGINNING OF YEAR	<u>538,447</u>	<u>31,791</u>	<u>221,200</u>	<u>791,438</u>
NET ASSETS, END OF YEAR	<u>\$ 409,517</u>	<u>\$ 31,676</u>	<u>\$ 221,200</u>	<u>\$ 662,393</u>

The accompanying notes are an integral part of the financial statements.

YOUTH SERVICES SYSTEM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Program Services</u>				<u>Supporting Services</u>	<u>Total</u>
	<u>Residential Services</u>	<u>Client Services</u>	<u>Community-Based Services</u>	<u>Other Program Services</u>	<u>Administration/ Management</u>	
Salaries and wages	\$1,586,450	\$ 738,723	\$ 358,913	\$ 300,078	\$ 509,664	\$3,493,828
Payroll taxes	157,406	66,170	36,781	28,499	43,954	332,810
Employee benefits	300,356	199,808	64,558	39,803	64,612	669,137
Accounting			3,825		23,100	26,925
Legal	150				720	870
Other professional services	466				1,390	1,856
Marketing/Advertising	3,820	5,839	8,803	50	54,117	72,629
Supplies	318,751	40,644	67,492	1,583	31,789	460,259
Telephone	28,566	13,860	10,737	4,755	14,607	72,525
Building and equipment maintenance	64,880	5,577	7,968	1,555	37,258	117,238
Utilities	102,619	15,939	11,226	80	22,029	151,893
Training	26,779	10,764	10,756	24,585	12,803	85,687
Leases, contracts and licenses	261,711	15,780	31,240	2,552	77,584	388,867
Insurance	41,807	16,433	9,187	740	6,488	74,655
Travel	35,041	8,863	23,405	53,807	13,395	134,511
Medical services	17,138	72,124				89,262
Interest	10,488	3,838	3,468	495	30,146	48,435
Depreciation	104,346	16,086	12,211	1,695	14,342	148,680
Health care provider tax	45,326	3,064				48,390
Other expenses					210	210
Uncollectible accounts	<u>2,119</u>	<u>2,058</u>	<u>4,053</u>			<u>8,230</u>
	<u>\$3,108,219</u>	<u>\$1,235,570</u>	<u>\$ 664,623</u>	<u>\$ 460,277</u>	<u>\$ 958,208</u>	<u>\$6,426,897</u>

The accompanying notes are an integral part
of the financial statements.

YOUTH SERVICES SYSTEM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

Operating Activities:

Decrease in net assets	\$ (129,045)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	148,680
Gain on disposal of property and equipment	(1,125)
Unrealized loss on investments	1,235
Decrease in unconditional promises to give	703
Increase in accounts receivable	(103,294)
Increase in prepaid expenses	(9,669)
Decrease in other investments	708
Increase in cash surrender value of life insurance	(24,695)
Increase in other assets	(21,750)
Increase in accrued payroll and other liabilities	72,704
Increase in refundable advances	33,943
Decrease in accrued interest payable	(10,837)
Decrease in deferred revenue	(15,223)
Increase in accounts payable	<u>193,026</u>
Net cash provided by operating activities	<u>135,361</u>

Investing Activities:

Purchase of property and equipment	(158,759)
Proceeds on sale of fixed assets	<u>1,125</u>
Net cash used by investing activities	<u>(157,634)</u>

Financing Activities:

Proceeds from short-term debt	196,194
Payment of short-term debt	(55,259)
Proceeds from long-term debt	111,976
Payments of long-term debt	<u>(221,294)</u>
Net cash provided by financing activities	<u>31,617</u>

Increase in cash	9,344
Cash, beginning of year	<u>79,376</u>
Cash, end of year	<u><u>\$ 88,720</u></u>

Supplemental information:

Interest paid	\$ 32,335
Capital assets purchased through credit	<u><u>\$ 706,830</u></u>

The accompanying notes are an integral part
of the financial statements.

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of accounting:

The financial statements of Youth Services System, Inc. (the Organization) have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Nature of activities:

The Organization is a nonprofit organization founded to serve the general public by providing social services, education, transitional living skills, training, therapy and developmental skills through intervention to disturbed and abused juveniles. The Organization is supported primarily through fees and grants from the West Virginia Department of Health and Human Resources (51%), fees from the West Virginia Division of Juvenile Services (22%), Medicaid revenues (17%) at June 30, 2009, and contributions from the public.

Unconditional promises to give:

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are recognized as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily and permanently restricted net assets are reclassified to unrestricted net assets.

Contributed services/materials:

The value of contributed services is not recognized as contributions in the financial statements because they did not meet the recognition criteria under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. The value of donated food, materials, furniture and other goods was estimated to be \$22,215 for the year ended June 30, 2009.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments:

The Organization carries an investment in a marketable equity security with a readily determined fair value at fair market value. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Certificates of deposit are stated at cost.

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Property, plant and equipment:

Donations of property, plant and equipment are recorded as support at their estimated fair market value. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding the length of time donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property acquired through donations which place permanent limitations on the use or on the proceeds from disposal of such property, or whose title may revert to a third party, are classified as permanently restricted net assets at the time they are acquired. Property and equipment are depreciated under the straight-line method over the estimated useful lives of the applicable assets, which range from 3 to 10 years for equipment and furnishings, and from 10 to 40 years for buildings and improvements. The Organization's Board of Directors has adopted a policy to capitalize fixed assets over \$1,000.

Basis of presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions:

The Organization also reports contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Temporarily restricted support are reclassified to unrestricted net assets upon satisfaction of restrictions and reported in the statement of activities as net assets released from restrictions.

Income taxes:

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a)(2) of the Code.

Cash and cash equivalents:

For purposes of the Statement of Cash Flows, the Organization considers only amounts held in checking and savings accounts to be cash and cash equivalents. Deposits in excess of

YOUTH SERVICES SYSTEM, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

insurance coverage (FDIC) represent concentrations of credit risk. Also at June 30, 2009, the Organization held no deposits in excess of federally insured limits (\$250,000).

Functional expenses:

The operating expenses of the Organization have been classified in the Statement of Functional Expenses on a direct basis whenever possible. Other expenses have been allocated based on personnel time worked, space utilized or some other rational allocation method.

2. RESTRICTIONS ON NET ASSETS:

Temporarily restricted net assets include program grants that are scheduled to continue into the next fiscal year or are restricted by time and contributions with a restricted purpose.

Temporarily restricted net assets are available for the following purposes:

Program grants with time restrictions	\$ 18,217
Unexpended temporarily restricted donations	13,459
	\$ 31,676
	\$ 31,676

Permanently restricted net assets consist of amounts received from federal financial assistance used to acquire or substantially restore real property and vehicles. Restrictions exist on the use of these assets and should the agency cease to use the real property and wish to dispose of the assets, federal regulations may require the Organization to repay the federal agencies the federal participation percentage of the assets' fair market value at that time. Permanently restricted net assets also consist of endowment contributions that are to be held in perpetuity.

Net assets subject to permanent restrictions in accordance with regulations relating to federal financial assistance and endowment contributions include:

Properties utilized in residential programs	\$ 104,902
Properties utilized in client programs	115,553
Endowment contributions held in perpetuity	745
	\$ 221,200
	\$ 221,200

3. UNCONDITIONAL PROMISES TO GIVE:

Unconditional promises to give consists of the following:

United Way allocation	\$ 6,797
	\$ 6,797

All amounts are currently receivable.

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

4. ACCOUNTS RECEIVABLE:

The Organization has determined that uncollectible amounts are expected to be insignificant; therefore, no provision for uncollectible accounts has been made. Restrictions in reimbursements and delays in receiving payments could have a significant effect on the Organization's ability to carry on many of its program activities. Outstanding receivables are concentrated in: the West Virginia Department of Health and Human Resources (41%) and WV State Medicaid (27%) at June 30, 2009.

5. OTHER ASSETS:

Other assets consisted of the following:

Cash surrender value – Life insurance (see Note 14)	\$ 115,646
Deposits	<u>21,750</u>
	<u>\$ 137,396</u>

6. INVESTMENTS:

The Organization holds an investment in a publicly traded stock that was received as part of a demutualization of a life insurance company of which the Organization was a policyholder. The initial value of these shares was \$3,617. This investment had a market value of \$347 at June 30, 2009. The unrealized loss of \$1,235 was recorded in the Statement of Activities at June 30, 2009. The Organization currently holds no other marketable equity securities.

The Organization also holds a partially restricted certificate of deposit. The carrying value of this investment was \$2,253 at June 30, 2009. \$745 of this certificate of deposit is permanently restricted as endowment contributions held in perpetuity.

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

7. PROPERTY AND EQUIPMENT:

Fixed assets were composed of:

Land	\$ 62,500
Buildings	1,070,778
Building improvements	290,936
Leasehold improvements	939,766
Vehicles	237,255
Equipment	283,311
Furniture	<u>33,432</u>
	2,917,978
Less accumulated depreciation	<u>(1,309,061)</u>
	<u>\$1,608,917</u>

8. SHORT-TERM DEBT:

The Organization has established a bank line of credit up to \$450,000 to provide for working capital requirements. The line of credit is secured by the Organization's receivables, land and buildings with a net book value of \$1,748,427 at June 30, 2009. The outstanding balance at June 30, 2009 was \$214,741 with interest at 4.25% per annum.

9. CAPITAL LEASE PAYABLE:

In March 2008, the Organization updated their capital lease agreements for multiple upgraded copiers with a net book value of \$42,052 at June 30, 2009. Minimum future annual lease payments are:

June 30, 2010	\$ 10,077
June 30, 2011	11,628
June 30, 2012	13,417
June 30, 2013	<u>12,745</u>
Total	<u>\$ 47,867</u>

YOUTH SERVICES SYSTEM, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

10. LONG-TERM DEBT:

Long-term debt consisted of the following:

Mortgage payable to a bank with a variable interest rate of 4.25%, due in monthly installments of \$4,613 through February 2029, secured by receivables and first deeds of trusts on land and buildings with a net book value of \$1,748,427.	\$ 734,697
Multiple vehicle loans payable to a financing company with 0% interest on 7 of the 8 loans, and one with an interest rate of 2.9%, due in total monthly installments of \$4,740 through July 2012, secured by vehicles with a net book value of \$163,036.	140,857
Loan payable through the U.S. Small Business Administration with an interest rate of 2.9%, due in monthly installments of \$547 through July 30, 2009, secured by a second deed of trust on land and building with a net book value of \$129,598.	<u>140</u>
	<u><u>\$ 875,694</u></u>

Future annual minimum debt payments are as follows:

2010	\$ 72,184
2011	77,453
2012	62,769
2013	30,627
2014	28,968
2015 and beyond	<u>603,693</u>
	<u><u>\$ 875,694</u></u>

11. OPERATING LEASES:

The Organization leases the Lincoln School property from the City of Wheeling under a thirty-year lease dated July 31, 1985. The lease calls for lease payments of \$1 per year.

The Organization leases a fleet of vehicles to use in operations. The minimum monthly lease payment on the fleet is \$5,899. However, several of these leases will expire in fiscal year 2010.

YOUTH SERVICES SYSTEM, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

On February 20, 2009, the Organization entered into a two-year lease with a realty company for the use of apartments for clients of the transitional living program. \$1,350 is due monthly beginning March 1, 2009 through February 28, 2011, at which time the lease can be renewed for another two-year term.

On June 10, 2009, the Organization entered into a three-month lease with another non-profit corporation for use of building space to operate the Youth Achievement Center. \$5,500 is due monthly beginning June 1, 2009 through August 31, 2009, at which time the lease can be renewed for two additional three-month periods.

12. RETIREMENT AND OTHER EMPLOYEE BENEFITS:

Pension plan:

The Organization maintains a retirement plan for employees in the form of a tax sheltered annuity 403(b) plan. Entry dates for the plan are January 1st and July 1st. The Plan is open to employees who average 20 or more hours of work per week (1,000 hours annually). An employee can contribute, under a salary reduction agreement, up to 20% of annual earnings not to exceed an annual cap set by IRS regulations, or \$20 minimum per month.

Prior to January 1, 2004, the employer had agreed to match the lesser of employee contributions according to the policy schedule or up to 6% of annual gross wages on the following policy schedule:

<u>Years of Service</u>	<u>Employer Match</u>
0 through 2 years	None
3 through 4 years	.5 to 1
5 through 9 years	1 to 1
10 or more years	2 to 1

At January 1, 2004, the Organization temporarily suspended the employer match portion of the pension plan until further notice.

Employer contributions are 100% vested when paid. Employee contributions approximated \$21,042 at June 30, 2009. There were no employer contributions for June 30, 2009.

Employee benefits, shown in the statement of functional expenses, total \$669,137 including retirement contributions of \$-0-, medical insurance benefits of \$611,825, and child care benefits of \$41,358 and other benefits of \$15,954 at June 30, 2009.

YOUTH SERVICES SYSTEM, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

Cafeteria plan:

The Organization offers to employees a flexible benefits plan under Section 125 of the Internal Revenue Code. The plan provides all full-time employees (1,872 hours per year) the ability to receive disability, dental and vision benefits. Newly eligible employees are enrolled in the plan on the first day of the fourth month of employment. Each participant receives an amount of flexible pay equal to the employer contribution, which is withheld to cover the cost of the selected benefits. Any flexible pay, not expended for the purchase of benefits under the plan, is considered a cash benefit under the plan.

Compensated absences:

The Organization offers compensated annual leave, ranging from 15 to 26.5 days per year if hired before July 1, 1998, and ranging from 12 to 21 days per year if hired after July 1, 1998, to employees who have continuous employment of more than three months. The Organization also offers compensated days for actual illness of up to 12 days per year. Unused sick days can be accumulated up to sixty days. In addition, according to the executive director's contract, this position's compensated annual leave and sick pay accrue without limit. An estimated liability for compensated annual leave of \$136,081 is reflected in the financial statements at June 30, 2009.

13. SPECIAL EVENT FUNDRAISERS:

Various special event fundraisers were held during the year. Gross revenues and direct expenses related to those events are as follows at June 30, 2009:

	<u>Steak Fry</u>	<u>Child Care Candle Sale</u>	<u>Other Events</u>	<u>Total</u>
Special event revenue	\$ 6,315	\$ 4,302	\$ 3,375	\$ 13,992
Less: Direct benefit to donors	(2,405)	(3,024)	(1,375)	(6,804)
	<u>\$ 3,910</u>	<u>\$ 1,278</u>	<u>\$ 2,000</u>	<u>\$ 7,188</u>

14. RELATED PARTY TRANSACTIONS:

In January 2003, the Organization purchased a \$1,000,000 universal life insurance policy on the former executive director. Quarterly premiums are paid by the Organization – the sole beneficiary of the policy. A cash surrender value of this policy was \$115,646 at June 30, 2009. The former executive director, who derived no financial benefit from this policy, died on December 14, 2009.

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Included in accounts receivable are amounts due from a former employee totaling \$4,927 at June 30, 2009.

Included in accounts payable are amounts due to employees totaling \$9,563 at June 30, 2009, for mileage reimbursements, travel expense and other expenses.

15. COMMITMENTS:

The Organization has several contracts with individual, psychological, psychiatric and medical care providers to service the Organization's clients based on identified medical needs. These fee for service contracts are mostly open ended. One contract requires \$1,200 monthly payment for services rendered for clients in the juvenile detention facility.

YOUTH SERVICES SYSTEM, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Direct programs:			
Runaway and Homeless Youth – Basic Center Program	93.623		\$ 127,742
Runaway and Homeless Youth – Transitional Living Program	93.550		<u>171,761</u>
Total direct programs			<u>299,503</u>
Pass-through programs from:			
WV Department of Health and Human Resources:			
Block Grant for Prevention and Treatment of Substance Abuse	93.959	G090322	98,185
Block Grant for Community Mental Health Services	93.958	G305217	23,273
Chafee Foster Care Independence Program	93.674	G090133	<u>38,075</u>
Total WV Department of Health and Human Resources			<u>159,533</u>
WV Division of Criminal Justice Services, Dept. of Military Affairs and Public Safety:			
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	08-308	37,109
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	09-401	<u>74,207</u>
Total WV Division of Criminal Justice Services, Dept. of Military Affairs and Public Safety			<u>111,316</u>
Total pass-through programs			<u>270,849</u>
Total U.S. Department of Health and Human Services			<u>570,352</u>
U.S. Department of Justice:			
Direct programs:			
Part E – Developing, Testing and Demonstrating Promising New Programs	16.541		13,620
Pass-through programs from WV Division of Criminal Justice Services:			
Juvenile Justice and Delinquency Prevention – Allocation to States	16.540	09-5018	<u>11,956</u>
Total U.S. Department of Justice			<u>25,576</u>
U.S. Department of Housing and Urban Development:			
Direct programs:			
Community Development Block Grants/Entitlement Grants	14.218		<u>4,000</u>
U.S. Department of Labor:			
Pass-through programs from WV Department of Labor – Northern Panhandle Workforce Investment Board:			
Workforce Investment Act – Youth Activities	17.259		<u>157,062</u>
U.S. Department of Agriculture:			
Pass-through programs from WV Department of Education:			
Child Nutrition Cluster Cash Assistance:			
School Breakfast Program	10.553		23,053
National School Lunch Program	10.555	C-300618	1,500
National School Lunch Program	10.555		38,074
Child and Adult Care Food Program	10.558		<u>18,633</u>
Total U.S. Department of Agriculture			<u>81,260</u>
Total expenditures of federal awards			<u>\$ 838,250</u>

See accompanying notes to schedule of expenditure of federal awards.

YOUTH SERVICES SYSTEM, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

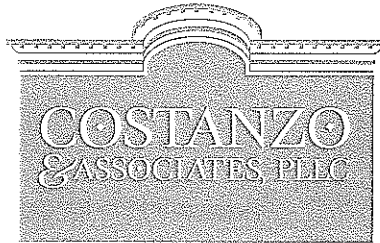
NOTE A. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Youth Services System, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

YOUTH SERVICES SYSTEM, INC.
SCHEDULE OF WEST VIRGINIA STATE GRANT RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2009

<u>Awarding Agency:</u> <u>Grant Name</u>	<u>Grant ID</u> <u>Number</u>	<u>Period of</u> <u>Award</u>	<u>Total</u> <u>Grant</u>	<u>Total</u> <u>Receipts</u>	<u>Total</u> <u>Expenditures</u>	<u>Unexpended</u> <u>Balance</u>	<u>Receivable</u> <u>Balance</u>
WV Department of Health and Human Resources:							
Casework Grant	G090128	7/01/08-6/30/09	\$ 544,822	\$ 478,616	\$ 483,948	\$ 60,874	\$ 11,099
Intensive Outpatient Program – Drug and Violent Crime Control	G090322	7/01/08-6/30/09	141,000	129,250	141,000		11,750
School Based Mental Health	G090322	7/01/08-6/30/09	44,000	35,248	39,257	4,743	4,009
Jobs Skills Development	G090133	7/01/08-6/30/09	11,200	9,519	9,519	1,681	
WV Department of Criminal Justice Services:							
WV Purdue Pharma Asset Forfeiture Funds – Underage Drinking Project	09-11-003	1/01/09-12/31/09	8,000	1,217	2,161	5,839	944
WV Attorney General Office:							
Intensive Outpatient Program – Hope’s Promise	N/A	3/20/2008	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>		
			<u>\$ 759,022</u>	<u>\$ 663,850</u>	<u>\$ 685,885</u>	<u>\$ 73,137</u>	<u>\$ 27,802</u>

The accompanying notes are an integral part
of the financial statements.



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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**

To the Board of Directors of Youth Services System, Inc.

We have audited the financial statements of Youth Services System, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated February 9, 2010. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Youth Services System, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Youth Services System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Youth Services System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Youth Services System, Inc.
Page Two
February 9, 2010

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Youth Services System, Inc.'s financial statements are free of 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 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*.

We noted certain matters that we reported to management of Youth Services System in a separate letter dated February 9, 2010.

This report is intended solely for the information and use of the board of directors, management, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Costanzo & Associates, PLLC
Costanzo & Associates, PLLC
Wheeling, WV
February 9, 2010

DHHR - Finance

FEB 18 2010

Date Received



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of Youth Services System, Inc.

Compliance

We have audited the compliance of Youth Services System, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Youth Services System, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Youth Services System, Inc.'s management. Our responsibility is to express an opinion on Youth Services System, Inc.'s compliance based on our audit.

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 *Governments Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Youth Services System, Inc.'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. Our audit does not provide a legal determination of Youth Services System, Inc.'s compliance with those requirements.

As described in Item 2009-1 in the accompanying schedule of findings and questioned costs, Youth Services System, Inc. did not comply with requirements regarding cash management, period of availability of federal funds and reporting that are applicable to its Runaway and

Homeless Youth – Transitional Living Program. Compliance with such requirements is necessary, in our opinion, for Youth Services System, Inc. to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Youth Services System, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Youth Services System, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Youth Services System, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Youth Services System, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2009-1 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Item 2009-1 to be a material weakness.

Youth Services System, Inc.
Page Three
February 9, 2010

Youth Services System Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Youth Services System, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Costanzo & Associates, PLLC
Costanzo & Associates, PLLC
Wheeling, WV
February 9, 2010

DHHR - Finance

FEB 18 2010

Date Received

YOUTH SERVICES SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Youth Services System, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Youth Services System, Inc. were disclosed during the audit.
4. One significant deficiency relating to the audit of the major federal award program is reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for Runaway and Homeless Youth – Transitional Living Program expresses a qualified opinion; the report on the remaining programs is unqualified.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs include: 17 259 – Workforce Investment Act – Youth Activities, 93.550 – Runaway and Homeless Youth – Transitional Living Program and 93 623 – Runaway and Homeless Youth – Basic Center Program.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Youth Services System, Inc. did not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

YOUTH SERVICES SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Questioned
Costs

Runaway and Homeless Youth – Transitional Living Program CFDA No. 93.550
2009-1 Grant No. 03CX0419 Six months periods ended August 31, 2008 and
February 28, 2009

Criteria:

The U.S. Department of Health and Human Services reimburses Youth Services System, Inc. to operate the Runaway and Homeless Youth – Transitional Living Program grant using monthly electronic “Request for Payment”. Every six months a financial status report (SF-269) is submitted to reconcile these “Requests for Payment” to Youth Services System, Inc.’s general ledger expenditure to operate the program.

Condition:

While performing our audit procedures to ensure compliance with the Runaway and Homeless Youth – Transitional Living Program grant contract, we noted that the SF-269 reports were not being properly reconciled to Youth Service System, Inc.’s general ledger.

Effect:

\$35,180 and \$23,986 in unsubstantiated grant reimbursements for the six months ending August 31, 2008 and February 28, 2009 are subject to being disallowed.

\$ 59,166

Cause:

This occurred because no procedures were in place to ensure that the monthly requests for payment could be substantiated by expenditures of the program. Youth Services System, Inc. did flag specific grant related expenses in the general ledger; however, these flagged expenditures were never compared or reconciled to the grant funding. The result is a significant amount of grant funds unexpended for the program.

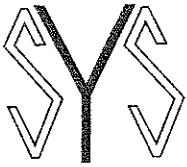
YOUTH SERVICES SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Recommendation:

We recommend that reconciliations between the SF-269 financial status report and Youth Services System, Inc.'s general ledger of flagged program expenses be performed on a regular basis and be reviewed for accuracy. A procedure should be put into place and executed to track the program expenditures in relation to the reimbursement requests being made. Therefore, if budget revisions need to be made to support the program, these can be timely addressed. A re-appropriation of the under-expended funds should be requested. If not obtained, the \$59,166 should not be charged against the grant.

Management Response:

Youth Services System, Inc. agrees with the finding and is in the process of implementing procedures to reconcile these grant reports on a regular basis. Management will contact the grantor agency to remedy this questioned cost.



YOUTH SERVICES SYSTEM, INC.

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35
YEARS OF
EXCELLENCE

February 9, 2010

Department of Health and Human Services

Youth Service System, Inc. would like to submit this corrective action plan to an identified finding 2009-1 Runaway and Homeless Youth – Transitional Living Program CFDA No. 93.550 Grant No. 03XC0419 for the six month periods ended August 31, 2008 and February 28, 2009, respectively, reported on in our June 30, 2009 audit reporting package. We concur with the recommendation. All grant reconciliations must be in accordance with OMB Circular A-133. Reconciliations will be performed on a regular basis and be reviewed for accuracy. This includes tracking the program expenditures in relation to the reimbursement requests being made. Effective immediately an addendum to our policy and procedures for grant management include:

Grant Planning

- A. Committee comprising Executive Director, CFO, Director of Development, Manager of Cost Centers targeted to be recipient of funding will meet prior to grant application to identify:
- a) writer
 - b) consultants to grant
 - c) implementation strategy
 - d) responsible parties to implement
 - e) program report responsible person
 - f) financial report responsible person
- B. Upon award of any grant same team will meet to strategize implementation (responsible parties, required documentation, reporting due dates and responsible parties)
- C. Person responsible for financial reporting will meet monthly to identify applicable expenses and draw down process.
- D. Reconciliation - Subsequent to monthly or otherwise identified draw down reconciliation shall be completed and signed off by CFO.

We would like to request re-appropriation of the under-expended funds.

Sincerely,

Tanya DelCotto, C.F.O.
Youth Services System, Inc.



Certified Public Accountants

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February 9, 2010

To the Senior Management and
Board of Directors of Youth Service System, Inc.:

In planning and performing our audit of the financial statements of Youth Services System, Inc. (the "Organization") as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion the 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, during our audit, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated February 9, 2010 on the financial statements of Youth Services System, Inc. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to thank the staff and management of Youth Services System, Inc. for their cooperation and courtesies extended to our representatives during this audit.

Sincerely,

Costanzo & Associates, PLLC
Costanzo & Associates, PLLC

DHHR - Finance

FEB 18 2010

Date Received

CURRENT YEAR COMMENTS

09-01 CASH: BANK RECONCILIATION APPROVAL

Currently, employees who are responsible for other cash functions also review bank reconciliations. This provides an ineffective system of cash control, because it permits the possibility of fraudulent activities due to the lack of adequate segregation of duties. An employee independent of cash receipt and disbursement activities should review the bank reconciliations for any unusual items and document their approval by initialing the form.

Independent reconciliation of the Organization's accounts will decrease the threat of misappropriation of assets. After the bank reconciliation approval policy is adopted by the Organization, misappropriation of assets would involve collusion of employees which is less likely to occur.

Bank reconciliation procedures have not been fully implemented in fiscal year 2009. We noted signed reviews on some of the Payroll and Operating account reconciliations; however, we recommend this process be fully implemented to improve the checks and balances necessary for strong cash control.

09-02 PROPER BOOKING OF ACCOUNTS TO THE GENERAL LEDGER

During our fieldwork, we noted the Organization did not create an account on the general ledger for Progressive Bank account 5025200 for the tracking of donations on the Youth Services System, Inc website. All bank accounts of the Organization should have its respective account on the general ledger for activity to be posted and proper reconciliation activities be completed monthly.

Without proper creation of a general ledger account for a new bank account, the Organization is not aware of funds located within the account, and also creates a high risk area for misappropriation of assets within the Organization.

We recommend the Organization adopt a policy implementing procedures creating general ledger accounts for new accounts opened by the Organization. Proper reconciliation procedures to the general ledger should be completed monthly and all suspicious reconciling items be promptly investigated and adjusted with adequate explanations.

09-03 STALE PAYABLES NEED TO BE ADDRESSED

As a result of our payables testing, we noted payables due to WV DHHR and OVMC from previous audit periods that have not been addressed. The payable to WV DHHR was caused by the Tuel Center receiving a higher reimbursement rate from WV DHHR than was owed to the Organization. The payable due to OVMC is a disputed issue prior to the fiscal year 2009 audit.

We recommend these amounts be researched with the respective vendors to determine the validity of these payables for future classification purposes-payable or forgiveness of debt. If the items are to be

considered a forgiveness of debt, Youth Services System, Inc. will need proper written documentation of the forgiveness by the respective institution

09-04 PROPER ALLOCATION PERCENTAGES

Our expense testing noted the use of outdated expense allocation percentages to the Organization's cost centers. The use of outdated allocation percentages causes inaccurate expense recognition for the appropriate cost centers.

Allocation percentages are essential to proper recognition of expenses to the cost centers. Accurate cost center accounting for expenditures is necessary for financially monitoring program costs.

We recommend that new allocation percentages be put into place when a new cost center is adopted so items can be charged accurately to these centers. Particularly with regard to the workers compensation allocation percentages used for Youth Services System, Inc., we recommend percentages be updated annually when the annual policy invoice is received.

09-05 CAPITALIZATION OF FIXED ASSETS

In our testing of unrecorded capital assets, we noted there was a substantial amount of fixed asset expenditures that were improperly coded to maintenance expense accounts for the fiscal year. Expense testing yielded a 70% exception rate (caused mainly by testing selections of Hazel Atlas and Indiana Ave remodeling expenses that should have been capitalized). According to the Organization capitalization policy, these items should never have been expensed.

Improperly coding fixed asset expenditures to expense accounts will reflect an inaccurate increase in expenses of the Organization. The amount recorded for property shall include all costs directly related to its acquisition, including expenditures incurred to place the property in usable condition for the purchaser. In the case of real estate, costs shall include amounts necessary to clear existing liens, initial remodeling costs, legal and other fees paid.

We suggest careful consideration and more accurate expenditure allocation between maintenance expenditures and remodeling expenditures. If the remodeling expenditures, in the aggregate, meet the criteria threshold of the Organization's capitalization policy, these expenditures should be capitalized.

09-06 SUTA REPORTS UNDERSTATED

During testing of the WV State Unemployment reports filed by the Organization for FY 2009, we noted two quarters that understated wages (third quarter of 2008 and second quarter of 2009).

We recommend using the earnings report to complete the SUTA report printed after all paychecks have been printed and distributed for the quarter, therefore Youth Services System, Inc. will be reporting the proper total wages.

09-07 ACCRUED VACATION CALCULATION

The Organization began using accounting software to calculate accrued vacation for the months of April, May, and June of 2009 of full-time employees. According to the Finance Office, the accounting software was incorrectly calculating paid time off based upon the sum of regular and overtime hours worked. According to the Organization's Employee Benefit Handbook, accrued vacation is calculated upon regular hours worked only. Personnel manually re-calculated accrued vacation and during our testing, we noted many instances of inaccuracies.

Incorrect liability calculations could lead to an overpayment or underpayment of employees; therefore, causing inaccuracies in the company's cash amounts available for operations.

We recommend that the accrued vacation reports be traced to the payroll reports to ensure proper calculation based upon pay rates. Accrued vacation reports should be compared to employee records to verify if employees have been terminated. Verification of formulas should be used to ensure accurate calculations. We also recommend the employee's start date be verified with the Paid Time Off - Accrual Table adopted by the Organization that can be found in the Employee Benefit Handbook. This verification is to ensure employees are located in the appropriate classification based on months worked for the Organization. Each classification accrues paid time off at different rates; therefore verification would improve paid time off calculations.

09-08 WV DHHR BILLINGS

The Wheeling Community Child Care Center will bill WV DHHR for payment of child care services. During the fiscal year 2009 audit, we noted WV DHHR reports do not calculate the amount to be received as OH DHHR indicates.

The Organization should be able to calculate payments received from WV DHHR to know if the payments received are correct for services rendered. Youth Services System, Inc. does not calculate amounts to be received to verify accuracy. This could adversely affect the Organization's cash flow due to a possible underpayment of fees owed to the Organization.

We recommend the Organization calculate the reimbursement amount based upon client information submitted to WVDHHR provided by Wheeling Community Child Care Center staff when sending the billing for collection. This amount should be recorded on the general ledger as a receivable and the receivable should be removed when payment is received. The payment should also be verified for accuracy based on the Organization's calculation of the amount to be received. Any discrepancies should be handled timely and resolved with WV DHHR by appropriate personnel within the Organization. See comment 07-02 for related child care fee recommendations.

09-09 CLASSIFICATION OF EXPENSES

During our audit procedures, it was noted that there were inconsistencies in how various expenses were classified. These inconsistencies involved the incorrect coding of expenses, and also coding to the incorrect cost center within the proper account. We were informed by the Finance Office during our testing that some vendors are programmed into the accounting system to automatically be coded

to a certain account and cost center. It is possible to override this feature; however, we noted some instances where the feature was not overridden and resulted in incorrect coding.

Incorrect coding will cause accounts to reflect misstated financials of the various cost centers due to employee error. Accounts should be monitored for increases and decreases in monetary values to alert management of potential problems that could adversely affect the Organization.

We recommend expenses be coded into the accounting system without programmed controls based on vendors. We also recommend that management establish a standard policy on how to classify expenses and consistently follow it to ensure accuracy of expense coding.

09-10 INACCURATE LABOR COSTS CHARGED TO GRANTS

Labor costs (salaries) are usually the most significant costs charged to a government contract/grant, and they usually comprise the base used for the allocation of related indirect costs. The accuracy of the labor cost allocation is directly dependent on the accuracy of the company's employee labor hours charged. Also, hours recorded on an employee's time sheet must be adequately supported and documented if they are to be accepted as the basis for reimbursable labor costs on government contracts. During our testing of employee wages allocation per grant, we noted double billing of one employee's salary.

We recommend improvement in internal control on monitoring the personnel charged to grants to ensure that double billing does not occur. Grant terms, conditions and reporting requirements, whether it be financial or outcomes, should be clearly established and responsibilities made clear when a grant is awarded to the Organization.

09-11 IMPROPER BILLING OF INSURANCE COST TO GRANT

During the fiscal year 2009 audit, we noted insurance billings to the Casework grant for terminated employees that should not have been billed to the grant. Per inquiry of the Finance Office, the insurance company does not adjust their billings immediately to reflect the removal of the employee from the invoice.

Due to the lack of communication between the Organization and the insurance company about terminated employees, the Organization billed the Casework grant for health insurance expenses that should not exist. The Organization knows these expenses should not exist. This causes the grant to be overbilled.

We recommend personnel to be more cognizant of communicating employee terminations with the insurance company, verifying that the employee is removed from the following bill, and not charging the refundable insurance payment to a grant.

09-12 INACCURACIES IN BILLING FOR GRANT

During the fiscal year 2009 audit, we noted inaccuracies in billings for the In Home-Block Grants Community Mental Health Services grant. We noted understated billings for travel, inconsistencies

in rates charged to the grant, and math errors causing both overbillings and underbillings to occur. We also noted inconsistencies with regard to the IOP grant. We noted inaccurate percentage of wages billed to the grant, items that have been either double billed or not billed at all, and inconsistencies on the detail behind the line items for the monthly billings.

We recommend verification of both the calculations for travel reimbursements and calculations for billings of hours multiplied by the appropriate rate by the program manager before submission for billings to the grant. Rates should be verified with payroll records/contracts stating the agreed-upon amount for services rendered to ensure accuracy of billings. We recommend the IOP grant to be reconciled by responsible personnel. At fiscal year end, the IOP grant should be reconciled in total with the flagged expenses and employee wages.

09-13 ACCOUNT RECEIVABLE COMMUNICATION

In our analysis of accounts receivable for Socially Necessary services and CAPS, we have found limited communication between the billing and the finance department. This limited communication should be improved to address the collection of receivables.

Strong and effective controls over accounts receivable can be extremely critical to the survival of a business. Poor practice allows for situations in which accounts receivable balances are allowed to build up as accounts age. This has a direct negative impact on the business because this affects cash flow, which is essential to business operations.

We recommend the client review the receivable balance monthly for timely collection. Proper review for collection should involve communication with the billing department as that department could have further detail as to when the funds will be paid or any changes that have been made to the amount owed to the Organization that need to be adjusted to reflect the proper balance on the general ledger.

09-14 TRACKING OF COLLATERAL AND OTHER DEBT COVENANTS

During our fieldwork, we inquired personnel about the tracking of collateral and any other debt covenants that might apply to the Organization. Youth Services System, Inc. has not fully established a method to monitor compliance with identified covenants and restrictions and collateral has not been tracked.

Tracking of the collateral and other debt covenants is essential to the Organization's borrowing practices. When the Organization has cash flow problems, or needs funding to support growth, the banking institutions will request collateral. The Organization also should monitor compliance with identified loan covenants and restrictions due to the risk of losing funding from noncompliance with these covenants and restrictions.

We recommend a procedure put into place for the monitoring of the covenants and restrictions to be reviewed quarterly. A spreadsheet should be utilized to show the Organization's loan, collateral and covenants of the loan. After discussing with the Finance Office, the Organization is to put into place policies/procedures after fiscal year end 2009 to monitor the covenants/collateral for loans.

SUMMARY OF PRIOR YEAR COMMENTS

There were corrective actions taken on some of the prior year audit recommendations and the Organization continues to work on appropriate corrective measures. We have made the following observations relating these prior year comments to the current fiscal year.

08-01 EMPLOYEE BENEFITS LACKING PROPER PLAN DOCUMENTS

During fiscal year 2008, the Organization added vision insurance as a Section 125 Cafeteria Plan benefit item, which required the Organization to have an agreement documenting the plan and abiding by any applicable filing requirements. The lack of a plan document would create an issue if any payroll taxing agency (such as the IRS) would audit the Organization's filings and request the Section 125 Plan documentation. Also, if not monitored, potential Form 5500 filing requirements could be overlooked.

This matter was discussed with the human resource department and we provided a sample plan agreement. In the current fiscal year, the Organization has adopted a Section 125 Cafeteria Plan. We continue to recommend the Organization continue to work with their benefits coordinators for potential welfare benefit plan filing requirements.

08-02 CHARITABLE CONTRIBUTION RECORDING / ACKNOWLEDGEMENTS

The Organization receives cash and in-kind contributions throughout the year and normally thank you acknowledgements are written. In reviewing the Organization's donor acknowledgement letters, we became aware that some acknowledgements lacked the proper wording. The Internal Revenue Service requires certain criteria to be retained in order for the donor to be able to deduct the cash contribution regardless of the amount. In order to meet these criteria the written communication from the qualified organization must include the name of the organization, the date of the contribution, and the amount of the contribution (for non-cash contributions a description of the contribution but not the value). Also a statement that no goods or services were provided by the organization in return for the contributions, if that was the case. Further guidance can be obtained in Publication 526 (<http://www.irs.gov/pub/irs-pdf/p526.pdf>).

The Organization has an established process upon receipt of a contribution. However we continue to recommend adopting a written policy communicating the acknowledgement letter requirements and maintaining copies of these letters to substantiate they have been issued with the proper wording. We also recommend that all donations (cash and non-cash) and acknowledgement letters be maintained at one location for tracking purposes and consistency.

The Organization also currently has no formal policy for recording in-kind contributions of goods. To better define this area and establish consistency, we suggest that the organization incorporate in their written policy procedures for recognizing in-kind contribution of goods. The policy should specify that transactions meeting the criteria, in excess of a minimum dollar amount, be recorded and should provide possible methods to be used to determine the fair market value of donated goods or assets, including adequate supporting documentation. This policy will allow for more consistent accounting treatment of contributed goods in all cost centers.

08-03 TIME CARD VALIDATION

Previously, a supervisor falsified time cards for an employee who was part of her immediate family. This comment should be read in conjunction with comment number 05-06. In response to this situation, the Organization has put together a "Payroll and Time Cards" policy; however, it has not been fully implemented. During FY 09, we noted instances of missing supervisor signature on time cards and missing employee signatures of the time card. Payroll checks should not be processed unless time cards are properly approved. Fully adopting and implementing the policy should address this problem.

We continue to endorse the idea of an electronic time tracking system and/or finger-printing clock in system where applicable. An added benefit of automating the payroll process would be a reduction in administrative time in processing the payroll cards in addition to the added safeguards that could be built into such a system.

08-04 REVISIONS TO FORM 990 FOR FISCAL YEAR 2009

The revised Form 990 includes additional information questions. Specifically it asks if a record retention and employee conflict of interest policy are in place. Therefore, we recommended the Organization be formally established such policies in writing.

In the current fiscal year an employee conflict of interest policy has been documented. We recommend the Organization adopt a record retention policy.

08-05 GRANT AMENDMENTS NOT FOLLOWED THROUGH

The Organization requested a reallocation of grant fund expenditures for the Jobs grant to allow an amount to be reclassified from salaries & wages to fixed assets. A greater amount was expended on fixed assets than was officially approved. The Organization should have received official documentation from the grant awarding agency to show approval for the entire additional amount that was expended on fixed assets. Upon review of the grant section of the Financial Policies and Procedures, there is no mention of budget modifications and the requirement not to make changes until receiving written approval. We therefore recommend this language be added to the grant section of the policy.

08-06 REQUIREMENTS FOR GRANT REPORTING WERE NOT COMMUNICATED

In FY 08, the Organization obtained two grants whereby no reporting was completed as required by terms of the grant and no tracking system was put into place. These grants were a \$10,000 IOP-State Auditor from a pharmaceutical settlement and \$1,500 WV DOE State Child Care Match Nutrition Match Grant. The Organization also obtained a grant of \$127,742 for Runaway Homeless Youth of which no one was aware of what exactly will need to be reported and the expenditures were not being tracked specifically for this multi-year grant.

We recommended improved communication between those staff who are in charge of obtaining grant funding and those who are ultimately responsible for the reporting of how those funds were spent. Compliance with the reporting requirements of any grant is the responsibility of those who are in charge

of the grant. Grant terms, conditions and reporting requirements, whether it be financial or outcomes, should be clearly established and responsibilities made clear when a grant is awarded to the Organization. It is worth noting in FY 09, this comment developed into a significant material finding regarding the federal RHY-IL grant. The CFO is to implement operation manuals for every grant including the forms, deadlines, persons in charge of which requirements, billing requests, and quarterly meeting with each program manager to review the status of each grant. Management also issued a corrective actions plan to be implemented. Until this procedure is formally adopted AND put into practice, the Organization will be jeopardizing future grant funding by not adequately controlling grant administration.

07-01 ANTIFRAUD PROGRAMS AND CONTROLS

Antifraud program and controls convey to employees the importance of acceptable behavior and responsible reporting. Antifraud program and controls should create a positive work environment, state that all employees will be held accountable to act within the foundation's code of conduct, make it clear that unethical or dishonest behavior will not be tolerated, and instill proactive hiring. These are just a few examples of what an antifraud program and controls entail. The purpose of implementing these antifraud programs and controls would be to reduce the occurrence of fraud through a combination of prevention, deterrence, and detective measures.

An antifraud policy has been established as a component of the code of ethics policy. The Human Resource department informed us that the code of ethics policy is reviewed during new employee orientations and with employees during employee trainings. We recommend the Organization present this code of ethics to all employees, not just at employee trainings and new hires.

07-02 CHILDCARE RECEIPTS ARE MAINTAINED ON CASH-BASIS

The Organization previously maintained all childcare revenues on a cash basis. We recommended that the accrual method of accounting be implemented for the recording of all childcare revenue transactions into the general ledger.

In FY 09, the Organization attempted to track childcare fees on an accrual basis. From July 2008-April 2009 childcare fees accounting remained on a cash basis. For the months of May and June, the Organization began booking a receivable for childcare income from the Access database. This account needs to be reconciled more timely. The posting of the payments onto the database should include the check number and post date to make it easier to identify payment date detail. This comment will remain until a complete accrual basis tracking system is put into place.

06-04 ORGANIZATION SHOULD ADOPT FEDERAL POST-AWARD REQUIREMENTS IN REGARDS TO FIXED ASSETS

During our fieldwork, we discovered that when fixed assets are disposed of, an internal procedure is not in place to identify whether that asset was purchased with federal funds or are restricted by a grant. The organization has no formal procedures for disposals. The Office of Management and Budget (OMB) Circular No. A-110 stipulates the Federal regulations regarding post-award requirements, unless

otherwise stated in the grant agreement. The Organization needs to be able to ascertain whether fixed assets were purchased with Federal funds/grants.

The OMB or other regulatory standard (i.e. HUD, Dept of Education) governs the use of federally funded equipment purchases, acquiring replacement equipment, property management standards, equipment record maintenance, etc. It also outlines the disposition instructions for equipment purchased with Federal funding. These regulations can be found on the OMB website - www.whitehouse.gov/omb/circulars/a110/a110.html

Mitigating this Federal requirement is a less than \$5,000 threshold for disposing equipment. "Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further objection to the awarding agency." Most of the organization's disposals consist of non-working or severely outdated equipment whose value would probably be less than this specific threshold. Therefore, we do not view this as a material noncompliance issue. It is worth noting that the Organization does have other "restricted" assets

We continue to recommend that internal procedures be put into place specifically regarding Federal fixed asset purchases/disposals reflecting the federal guidelines. Having these procedures in place will assure compliance with Federal regulations. Management has indicated they plan to utilize a software program to track fixed assets. The Organization planned to track restrictions on fixed assets through a component of their fixed asset software module. To date this module has not been instituted and this deficiency in control will persist until the module is operational.

06-06 CUMULATIVE GRANT EXPENDITURE REPORTS WERE NOT TIMELY SUBMITTED IN ACCORDANCE WITH GRANT AGREEMENTS

In the prior years, the Casework and Job Skills grants required that final cumulative expenditure reports be filed with the grantor by August 15. The Organization had not filed these reports in accordance with the grant agreement due dates. Management agreed that this was an oversight on their part and prepared the appropriate documentation for filing resulting in overpayments on the Casework grant. In addition to the final cumulative expenditure reporting, during the current year fieldwork we noted that the Organization also did not timely file the quarterly expenditure reports for the OJJDP grants. The GACFED and final expenditure report were filed late for the Casework grant. The final expenditure report was filed late for the IOP grant. The GACFED and final expenditure report could not be located for the JOBS grant. None of the expenditure reports were filed timely for the Title V grant. The GACFED and July Expenditure report was filed late for the SBMH, IOP, and Bridges Grant.

We continue to recommend that all grants be reviewed at the end of the grant period for final required documentation submissions to the grantor agency. In addition, we suggest that a schedule containing all grant reporting due dates be maintained and adhered to. To our knowledge a tracking schedule is kept; however, it is neither all inclusive nor timely adhered to. Coordinating communication between when the grant is accepted and required reporting of expenses would assist in accurately meeting grant requirements. See 08-06 comment above.

05-02 THE COMPUTERIZED SYSTEM USED TO BILL AND TRACK PAYMENT OF THE MEDICAID RECEIVABLES SHOULD BE RECONCILED ON A MONTHLY BASIS TO THE GENERAL LEDGER:

Using the current procedures in place for Medicaid receivables, it is difficult to arrive at an accurate receivables balance, at any given date, for financial statement reporting purposes because the general ledger and billing system are not integrated. Since this is the case, we continue to recommend printing all possible Medicaid billing reports (billings, paid, pending, etc.) **after all June activity has been billed each year** to facilitate auditing. Because adjustments can be made subsequent to the year-end on balances existing prior to year-end, this distorts reports after the reporting date activity.

It was noted that the Organization reconciled this account with the general ledger at fiscal year-end shortly after our fieldwork commenced. Communication between the employees responsible for billing and recording activity in the general ledger continues to improve. However, we continue to recommend that the organization remain vigilant in, at a minimum, quarterly reconciliations and correcting all rate adjustments as soon as possible and within the fiscal year they occur to reduce the amount of year-end adjustments and reconciliations that need to be performed. A management comment will be issued in this area until consistent reconciliation process is implemented.

05-05 RECONCILIATIONS OF ACCOUNTS PAYABLE NEED TO BE TIMELY POSTED TO THE GENERAL LEDGER

The payable ledger was previously not reconciled to the accounts payable trial balance account at June 30, 2009, 2008, 2006 or 2009. The result of this was spending additional audit time making accounting entries and a payable ledger that does not substantiate the trial balance. Monthly reconciliations should be compared to the general ledger balance so that any differences can be accounted for and general ledger balances can be substantiated. For the current fiscal year, the payable ledger and trial balance were not in agreement.

05-06 CARE SHOULD BE TAKEN IN PREPARING AND KEEPING ACCURATE RECORDS REGARDING PAYROLL AND RELATED COMPLIANCE REPORTING FUNCTIONS

For FY 2009, in our limited payroll testing, we experienced a 57% exception rate (62%, 20%, 17% and 20% for FY 2008, 2007, 2006, and 2005). As in prior year testing, several time cards lacked the proper supervisor's approval, and some lacked the employee's signature. Although these errors are not judged to be material overall, greater care should be exhibited to eliminate these exceptions, especially when the largest expenditure and federal/state grant reimbursement is for payroll and benefits. A management comment will be issued in this area until the error rate improves or until the organization changes the way the current time-card system is used.

During testing in fiscal year 2009 audit, the Organization has put together a "Payroll and Time Cards" policy; however, it has not been fully implemented. See 08-03 comment above.

05-07 AREAS OF IMPROVEMENT FOR INTERNAL CONTROL INCLUDE CASH, PAYABLES AND EXPENDITURES

We recommended strengthening internal control and documentation in these areas. In the prior fiscal year, we noted stale checks outstanding older than six months in the general operating account reconciliation. However there were no stale dated checks in the current fiscal year-end. It was previously recommended that the checking and accounts payable reconciliations be reviewed and documented as such by the CFO. In current year, we noted review of some of the bank reconciliations. Reconciliations were not completed in a timely manner. The Health Reimbursement account balances in the general ledger were not reconciled to the bank statements because the client did not understand the activity in this account. Rather than trying to actively pursue and account for it, Youth Services System, Inc. has chosen to not reconcile at fiscal year end. We continue to recommend that these reconciliations be appropriately reviewed, timely executed, and that written procedures be put into place for the Finance Office so that appropriate corrective actions are adhered to.

Management has also not implemented a purchase order system. We would continue to recommend they do so. It is also recommended that a breakdown of expense allocations be shown on either the invoice or check stub accompanying the invoice and that all expenditures should also be documented as being properly approved.