

OFFICE OF THE NASSAU COUNTY COMPTROLLER



**Limited Review of
Bethany House
(Emergency Shelter)
Compliance with the Nassau
County Living Wage Law
2017-2018
*OCTOBER 8, 2020***

**JACK SCHNIRMAN
COMPTROLLER**

OFFICE OF THE NASSAU COUNTY COMPTROLLER

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Executive Summary



OFFICE OF THE NASSAU COUNTY COMPTROLLER LIMITED REVIEW OF BETHANY HOUSE (EMERGENCY SHELTER) COMPLIANCE WITH THE NASSAU COUNTY LIVING WAGE LAW

WHY WE DID THIS REPORT

This audit was undertaken to determine if Bethany House, a non-profit agency providing emergency shelter services to Nassau County residents, was in compliance with the Nassau County Living Wage law which requires payment of a living wage to its employees and provision for health benefits, and was in compliance with its Memorandum of Understanding (MOU) with Nassau County.

WHAT WE FOUND

We found that Bethany House violated the terms of their MOU with Nassau County by not maintaining adequate accounting records and not complying with various Federal and State regulations. Findings include:

- Bethany House failed to maintain adequate documentation to support over \$160,000 in stipend payments.
- Questionable payments exceeding \$35,000 were made to Board members and employees, with no apparent reason for these payments.
- Bethany House did not have a formalized petty cash policy and petty cash was used for over \$6,000 of unallowed expenses, such as, public relations expenses, holiday gifts of \$1,100, reimbursement for groceries purchased with an EBT card (SNAP benefits), and holiday tips of over \$750.
- Related party transactions and nepotism at Bethany House, including hiring a relative in a key position and supervising them, violating the NYS Non-Profit Revitalization Act, and initiating a fundraising contract with a Board Member's relative.
- Bethany House funds were comingled with personal funds, and used for expenses not allowable with non-profit funds, such as holiday decorations, pet food expenses and genetic testing kits.
- Bethany House had some small underpayments of the Living Wage and required compensated time off totaling approximately \$1,300 over the audit period.

WHAT WE RECOMMEND

We made specific recommendations to Bethany to improve their financial operations, including the following:

- Use charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230¹ making only allowable expenditures that fulfill their mission.
- Follow guidelines for Non-Profit organizations and provide proper management oversight, specifically with regards to hiring and firing key employees, which should be documented in Board minutes.
- Cease cash payments to employees, Board members and relatives.
- Adopt a policy for the management of petty cash funds, designate a petty cash custodian who will maintain a petty cash log and cease using petty cash as an operating fund.
- Maintain adequate supporting documentation for all cash disbursements.
- Obtain proper approval before expenses are paid.
- Institute a Code of Ethics policy which states a Director, Officer or key employee should not hire or supervise relatives.
- Comply with the terms of their MOU with Nassau County.
- Reimburse employees who were underpaid the Living Wage or uncompensated time off.
- Implement a daily employee time reporting process that documents work dates, start and end times and the total hours worked by each employee every day including when an employee works for another scheduled individual who takes a day off or calls in sick.
- Properly document hours worked to support the calculation of stipend payments.

Executive Summary



OFFICE OF THE NASSAU COUNTY COMPTROLLER LIMITED REVIEW OF BETHANY HOUSE (EMERGENCY SHELTER) COMPLIANCE WITH THE NASSAU COUNTY LIVING WAGE LAW *CONTINUED*

WHAT WAS THE RESPONSE?

New leadership at Bethany House is committed to making necessary changes to improve fiscal operations and assure compliance with their MOU with Nassau County. We commend the new leadership's intent to make improvements and for working collaboratively with the Comptroller's Office during the completion of this audit.

Specifically, Bethany House is committed to:

- Implementing a biometric time keeping system to validate hours.
- Maintaining calculations to support stipend payments through to December 31, 2020 assuring they will be properly documented.
- Using charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230, Cost Principles for Non-Profits.
- Ceasing cash payments to employees, Board members and relatives.
- Adopting a petty cash policy that designates custodians and maintains petty cash logs.
- Enforcing their current cash disbursement policy.
- Adopting a code of ethics policy that restricts the hiring or supervision of relatives of directors, officers or key employees.
- Paying employees the money owed to them for compensated leave and wages.
- Agreeing to strictly comply with the tenets and terms of the MOU with Nassau County.

WHY IS THIS REPORT IMPORTANT?

Living Wage audits such as this provide an important check on employers and provide real results in the form of back wages and uncompensated time off being paid directly to impacted employees. The expansion of the scope of a traditional Living Wage audit to include review of an agency's compliance with their Nassau County MOU is an important step to hold Nassau County service providers accountable. We must continue to demand accountability from employers to assure that Living Wage requirements are strictly enforced and that the County's MOU is respected. Solving the problems identified in this audit allows Bethany House's executive staff to focus on the important work of this organization.

¹ Code of Federal Regulations, Chapter II, Part 230, Cost Principles for Non-Profit Organizations.

Executive Summary

Purpose

The purpose of the review was to determine whether Bethany House, an emergency shelter under contract with Nassau County was in compliance with both the Nassau County Living Wage Law and the related Memorandum of Understanding.

The Law requires that employees of Bethany House who perform work under the County contract be paid the applicable wage rate and are receiving either health benefits or a health benefit supplement and are provided with the Law's required compensated time off.

Introduction:

The Nassau County Living Wage Law ("Law") ensures that employees of certain companies that receive County funds are earning a living wage and are receiving health benefits or a health benefit supplement. Additionally, the Law provides that full-time employees receive 12 paid days off a year, and part-time employees who work at least 20 hours per week, receive a proportionate share of compensated days off.²

The Summary of Findings and Recommendations as a result of this audit can be found on the next page.

² Miscellaneous Laws of Nassau County, Title 57 – Nassau County Living Wage Law.

Executive Summary

Summary of Audit Findings and Recommendations		
#	Audit Finding	Audit Recommendation(s)
1	Stipend Payments were Improperly Invoiced, Authorized and Paid; Bethany House Failed to Maintain Adequate Supporting documentation	<p>We recommend:</p> <ul style="list-style-type: none"> a) Bethany House implement a daily employee time reporting process that documents work dates, start times and the total hours worked by each employee every day including when an employee works for another scheduled individual who takes a day off or calls in sick; b) Bethany House properly document hours worked to support the calculation of stipend payments; and c) Bethany House comply with the terms of their MOU with Nassau County.
2	Questionable Payments Exceeding \$35,000 were made to Bethany House Board Members, Employees and Relatives of the Founder/Former Executive Director from a Bank Account in the Religious Order's Name, Listing the Bethany House Address	<p>We recommend:</p> <ul style="list-style-type: none"> a) Bethany House use charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230 making only allowable expenditures that fulfil their mission; b) cash payments immediately cease to employees, Board members and relatives; and c) Bethany House should abide by the terms of their MOU with Nassau County.
3	Bethany House's Board of Directors Did Not Comply With NYS Not-For-Profit Law; The Founder/Former Executive Director Has Too Much Influence Over the Board of Directors	<p>We recommend:</p> <ul style="list-style-type: none"> a) the Board of Directors of Bethany House follow guidelines for Non-Profit organizations and provide proper management oversight, specifically with regards to hiring and firing key employees; b) all key hiring and firings be properly documented in Board minutes; and c) comply with the terms of their MOU with the County.
4	Bethany House Has Not Exercised Proper Stewardship of Funds by Not Following Federal Guidelines: Certain Costs are Not Allowable with Not for Profit (Charitable) Funds	<p>We recommend:</p> <ul style="list-style-type: none"> a) Bethany House use charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230, making only allowable expenditures that fulfil their mission; and b) Bethany House comply with the terms of their MOU with the County.
5	Bethany House Does Not Have a Formalized Petty Cash Fund and Is Using Petty Cash Inappropriately; Over \$6,000 in Unallowed Petty Cash Expenses Incurred	<p>We recommend:</p> <ul style="list-style-type: none"> a) The Bethany House Board of Directors adopt a policy for the management of petty cash funds. This should include dollar limits for reimbursements, required supporting documentation such as receipts for all petty cash reimbursements, detailing the purpose of expenses and the party to whom money was paid; b) designate a petty cash custodian who will maintain a petty cash log; c) cease using petty cash as an operating fund; and d) Bethany House should comply with the terms of their MOU with Nassau County.
6	Internal Control Weaknesses with the Non-Profit's Cash Disbursements Result in Increased Risk for Fraud	<p>We recommend:</p> <ul style="list-style-type: none"> a) Bethany House maintain adequate supporting documentation for all cash disbursements; b) proper approval is obtained before the expense is paid; and c) the check or check stub contain the associated invoice number and/or date to ensure a proper audit trail.

Executive Summary

Summary of Audit Findings and Recommendations		
#	Audit Finding	Audit Recommendation(s)
7	Related Party Transactions and Nepotism at Bethany House Violate the New York State Nonprofit Revitalization Act	We recommend: a) The Board of Directors immediately institute a Code of Ethics policy which states a Director, Officer or key employee should not hire or supervise relatives; b) the Board of Directors investigate comparable not-for-profit salary guidelines for the Chief Operating Officer position; c) Bethany House hire fundraisers that comply with NYS laws; and d) Bethany House comply with the terms of their MOU with Nassau County.
8	Twenty-One Part-time Employees Were Not Granted 77 Hours of Earned Compensated Time Off Totaling \$1,243	We recommend that Bethany House: a) pay the 21 employees the \$1,243 for earned compensated time off owed and provide proof of payment to the Comptroller's Office; and b) immediately update their Employee Handbook to reflect the proper compensated time off policy reflected in the Nassau County Living Wage Law.
9	Three Employees Were Underpaid a Total of \$75.96	We recommend that Bethany House: a) pay the three employees the amount owed to them; and b) provide proof of payment to the Comptroller's Office.

Executive Summary

The matters covered in this report have been discussed with the officials of Bethany House. On September 9, 2020 we submitted a draft report to Bethany House for their review. An Exit Conference was held on September 18, 2020 and a revised draft was submitted to the Bethany House on September 21, 2020. Bethany House provided their response on September 25, 2020.

Their response and our follow up to their response are included at the end of this report.

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Introduction

Background

The Nassau County Living Wage Law ensures that employees of certain companies that receive County funds are earning a living wage and are receiving health benefits or a health benefit supplement. Additionally, the law provides that full-time employees receive 12 paid days off a year, and part time-time employees who work at least 20 hours per week, receive proportionate compensated days off.³

The Living Wage Rates applicable to the period under review are shown in Exhibit I below:

Exhibit I

LIVING WAGE LAW RATES				
EFFECTIVE DATES		HOURLY RATES		
FROM	TO	WITH HEALTH BENEFITS	HEALTH BENEFIT SUPPLEMENT	WITHOUT HEALTH BENEFITS
August 1, 2016	July 31, 2017	\$13.73	\$2.05	\$15.78
August 1, 2017	July 31, 2018	\$13.98	\$2.09	\$16.07
August 1, 2018	July 31, 2019	\$14.27	\$2.14	\$16.41

Nassau County, acting on behalf of the Nassau County Office of Housing & Community and the Department of Social Services (“DSS”), entered into a Memorandum of Understanding (“MOU”) with Bethany House of Nassau County Corporation, a non-for-profit agency, to provide housing to homeless adult women and women with children seeking emergency shelter. The current MOU, which is effective May 1, 2017 through April 20, 2022, provides program guidelines including funding, expenditures and compliance with the Nassau County Living Wage Law.

Bethany House was founded by a Sister who belongs to a Religious Order located in Suffolk County. According to Bethany’s website, it was founded in 1978 in response to a growing need for emergency shelter and services for women and their children who are caught in the crisis of homelessness. The Religious Order made contributions to Bethany House of \$55,000 and \$28,000 for the periods ending 9/30/17 and 9/30/18, respectively.⁴ For the majority of our audit period, the Executive Director of Bethany House was the founder, who received various stipend payments in lieu of a set salary.

In March 2018, a new Executive Director was hired but was subsequently terminated in July 2018 for reasons that were not delineated in the Board minutes. The Founder/former Executive Director

³ Miscellaneous Laws of Nassau County – Title 57 – Nassau County Living Wage Law.

⁴ Per the Bethany House IRS Form 990’s for period ending 9/30/17 and 9/30/18.

Introduction

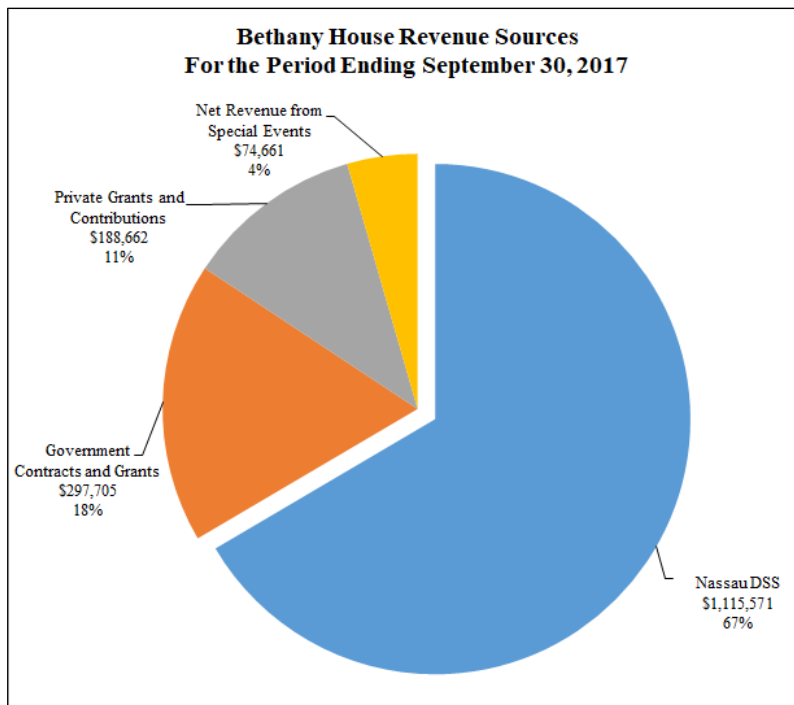
resumed responsibilities as Executive Director until a new Executive Director was voted in by the Board on April 1, 2020.

On August 10, 2020, Auditors were notified that the current Executive Director tendered her resignation “due to activities contrary to other non-profits” that she worked for. The Board Chair and two additional Board Members resigned subsequent to the Executive Director’s resignation.

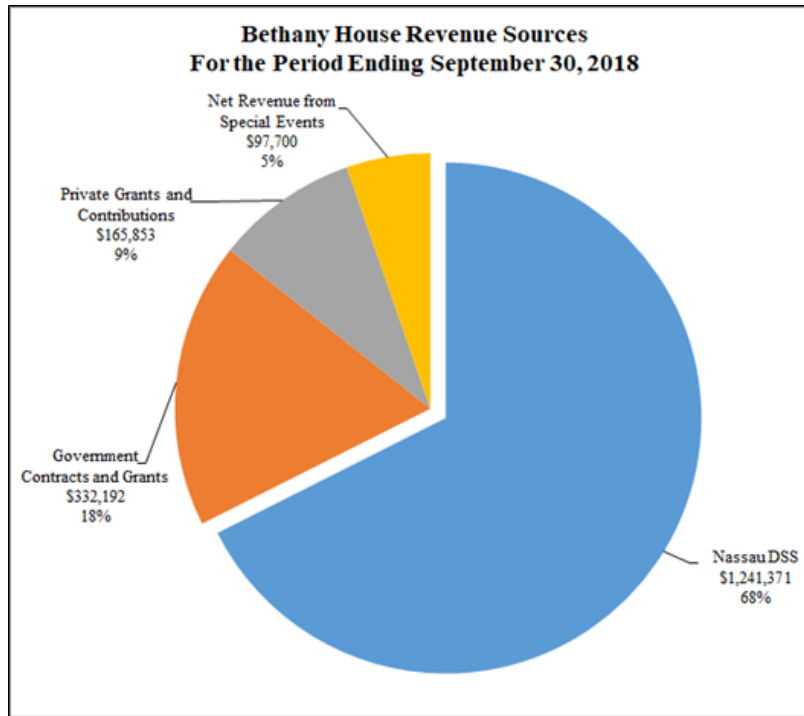
On August 17, 2020, Auditors were notified by the Founder/former Executive Director, that since the Executive Director gave her resignation notice to Bethany House, the Board asked her to oversee the day-to-day operations to ensure a smooth transition. The Auditors were also told, that the Board was interviewing for an interim Executive Director and hoped to have someone in place in a few weeks. Auditors were informed on August 23, 2020, the Board requested that the Founder/former Executive Director move out of the Bethany House residence and they would bring in an interim Executive Director and make the Founder/former Executive Director an honorary non- voting Board member.

For the years 2017 and 2018, Bethany Houses’ reimbursements for emergency shelter services from DSS exceeded \$1 million each year. Exhibit II details the sources of revenues received by Bethany House.

Exhibit II



Introduction



Bethany House has:

- three properties in Nassau County that provide Emergency Shelter to families and individuals; and
- two additional properties not covered under the MOU which are long-term facilities providing transitional housing to individuals that may no longer require emergency shelter.

Bethany House received pass through funds from the Nassau County Office of Community Development in 2017 and 2018. According to Bethany House's Federal Tax Form 990s for fiscal years ending 9/31/2017 and 9/31/2018, the Agency received \$100,000 of grant money in each year from Nassau County. Bethany House used this grant money for various expenses, such as:

- workers compensation insurance;
- salary for residential directors;
- various maintenance and operating costs for the shelters;
- hiring a CPA firm to provide accounting and auditing services; and
- various corporate insurance policies related to emergency shelters.

Additionally, Bethany House receives funds through the Emergency Food and Shelter Program (EFSP), a federally funded program administered by the Federal Emergency Management Agency. The purpose of the EFSP is to supplement and expand the ongoing work of local social service organizations, both non-profit and governmental, to provide shelter, food and supportive services to individuals and families who have economic emergencies. According to Bethany House's 990s for fiscal year ending 9/30/2017, they received a grant of \$135,000. For fiscal year ending 9/30/2018, they received a grant of \$175,000.

Introduction

Audit Scope and Methodology

The objective of this review was to determine whether Bethany House was in compliance with the Nassau County Living Wage Law and related Rules and with the County's Memorandum of Understanding. The review period was January 1, 2017 through December 31, 2018.

To achieve these objectives, we performed the following:

- Compared the payroll rate of pay for each employee with the applicable Living Wage rate.
- Calculated the compensated leave accrued, based on 20 or more hours worked in a 40-hour work week and compared to Bethany House's records for accuracy.
- Reviewed the internal controls over cash disbursements to determine adequacy and the appropriate use of non-profit funds.
- Tested compliance with the County's Memorandum of Understanding.
- Reviewed emergency shelter claims submitted to the County.

We believe our review provides a reasonable basis for the findings and recommendations contained herein.

Findings and Recommendations

AUDIT FINDING (1)

(1) Stipend Payments were Improperly Invoiced, Authorized and Paid; Bethany House Failed to Maintain Adequate Supporting Documentation

Auditors found that the non-profit agency did not properly document over \$160,000 in stipend⁵ payments made to the Founder/former Executive Director for the period January 2017 to November 2018. Additionally, IRS form 1099s were not issued for these stipends.

Further investigation revealed the following:

- the stipend payment checks to the Founder/former Executive Director from Bethany House were signed by the Founder/former Executive Director, indicating she is the “maker” of her own checks;
- The stipend payment checks were deposited into an account in the name of the Religious Order with the address of Bethany House in Roosevelt, not the Religious Order in Suffolk County;
- The checking account of the Religious Order appears to be the Founder/former Executive Director’s personal bank account, with Bethany House and Bethany House transactions intermingled.

It is improper to have an account that has a religious order’s name with the non-profit’s address and personal and non-profit funds comingled in the same bank account.

The Founder/former Executive Director receives a portion of a fixed monthly stipend that was agreed upon by Bethany House and the Religious Order for living expenses. In addition, the Founder/former Executive Director of Bethany House invoiced Bethany House for a second monthly stipend. This stipend was a reimbursement for hours the Founder covered weekend and overnight shifts, giving the appearance of a salary, rather than a stipend, because there was an hourly rate paid for this work. Bethany House was approving the invoices without any independent documentation to substantiate the dates and hours worked.

Auditors reviewed two of these stipend checks and noted that the Founder/former Executive Director of Bethany House was the authorized signer of the checks. In both instances, these checks with the address of the main office of Bethany House were deposited in the same account that we evidenced the Founder/former Executive Director was depositing petty cash reimbursement checks and fixed monthly stipends. Although there were no endorsements on the back of the stipend checks, we believe this is the Founder/former Executive Director’s personal account.

The Founder/former Executive Director received a second stipend for nights and weekends worked in addition to a fixed monthly stipend. Auditors requested documentation authorizing the second stipend payments. The financial manager of Bethany House provided a letter on Bethany House letter-head, stating that the stipend was to be paid. There was no written authorization provided

⁵ The IRS defines a stipend as a fixed sum of money paid periodically for services or to defray expenses.

Findings and Recommendations

from the Religious Order authorizing these second stipend payments. A former Bethany House employee informed the Auditors that the Religious Order was unaware of the /Founder/former Executive Director's second stipend payment.

According to documentation provided during the audit, each year the Diocesan Committee on Religious and Retirement meets and determines the total stipend amount to be offered to religious people working in parishes and agencies.

In 2004, the hourly rate for the second stipend was set at \$17.50/hr. In 2007, the rate was increased to \$20/hour. From 2009 through 2015, it was increased to \$21 hourly, and in 2016 it was raised to \$23/hour where it remains presently. The Founder/former Executive Director of Bethany House received this stipend for acting as a night and weekend manager at Bethany House.

Auditors sampled two disbursements for second stipend payments made to the Founder/former Executive Director of Bethany House. In April 2017, the Founder/former Executive Director received \$7,084 as her second stipend. This amount was calculated as follows:

- 5 weekend days during the month of April at \$230 per day (\$23/hr. for 10 hrs.) = \$1,150;
- 30 nights during the month of April at \$184 (\$23/hr. for 8 hrs.) = \$5,520; and
- 18 extra hours during the month of April which she covered due to staff vacations and illness (\$23/hr. for 18 hrs.) = \$414.

Auditors reviewed timesheets for the month of April, however, they were unable to identify the specific nights and weekends worked by the Founder/former Executive Director. When the auditors spoke with the Founder/former Executive Director, she stated that she does not sign in or out, thus Auditors were unable to verify the days/hours worked to justify the additional compensation received in the form of a stipend. Additionally, this calculation indicates that the Founder/former Executive Director worked every single evening during the month of April.

Auditors also reviewed a sample second stipend payment made in July 2018. The Founder/former Executive Director received \$8,050 as her second stipend payment for this period. This amount was calculated as follows:

- 2 weekend days (\$23/hr. at 10 hrs. each day) = \$460;
- 27 nights (\$23/hr. at 10 hrs.) = \$6,210; and
- An adjustment to the June invoice for \$1,380 was added as well. We did not test the June 2018 invoice, so we did not consider this portion of the payment.

None of the time sheets reviewed clearly detailed hours worked (i.e. no time in or out indicated on timesheets) or when someone worked in place of the scheduled employee.

As per the US Department of Labor Wage and Hour Division⁶, the Fair Labor Standards Act requires employers to maintain certain records which include the hours worked each day and total hours worked each work week.

⁶ <https://www.dol.gov/agencies/whd>

Findings and Recommendations

Additionally, Bethany House is not in compliance with their Memorandum of Understanding (“MOU”) with Nassau County, specifically Section 18 Accounting Procedures; Records.

For the period January 2017-November 2018, Auditors identified a total of \$160,547 of second stipend payments that were made and are unverifiable.

The Founder/former Executive Director stepped down as Executive Director in April of 2020, but continues to receive a \$125,000 stipend, a room at the Baldwin facility and use of a shelter vehicle and is listed as founder/fundraiser. **The two stipend payments have been combined into one monthly payment which is for her day work and her night coverage. It was decided by the Board of Bethany House that a fixed amount would be paid to the Religious Order rather than an amount that varied to better reflect a stipend as opposed to a salary.*

According to the US Bureau of Labor Statistics the average salary for clergy is \$53,290.⁷

Audit Recommendations:

We recommend:

- a) Bethany House implement a daily employee time reporting process that documents work dates, start and end times and the total hours worked by each employee every day including when an employee works for another scheduled individual who takes a day off or calls in sick;
- b) Bethany House properly document hours worked to support the calculation of stipend payments; and
- c) Bethany House comply with the terms of their MOU with Nassau County.

AUDIT FINDING (2)

(2) Questionable Payments Exceeding \$35,000 were made to Bethany House Board Members, Employees and Relatives of the Founder/Former Executive Director from a Bank Account in the Religious Order’s Name, Listing the Bethany House Address

Expenses of Bethany House are being comingled with the expenses of the Founder/former Executive Director’s in a bank account she is using as a personal account with the Religious Order’s name. As discussed in Audit Finding 1, the Founder/former Executive Director received a stipend for nights and weekends worked in addition to a fixed monthly stipend. These stipend payments are being deposited into an account under the Religious Order’s name, not her own, listing Bethany House’s address.

⁷ Per the US Bureau of Labor Statistics Occupational Employment and Wages Clergy, May 2018.

Findings and Recommendations

Auditors noted questionable checks written from this account during the period 2017-2018. These checks totaled **\$35,089 and included:**

- \$17,310 written to “cash,” endorsed by employees and Board members; and
- \$17,779 payable directly to employees, Board members and relatives.

It could not be determined why these individuals would be receiving payments from the personal account of the Founder/former Executive Director.

Cash gifts, including gift cards, given to employees are considered taxable compensation.

Non-profit best practices discourage cash gifts to employees as it could be deemed as a way to avoid paying taxes. Auditors were informed that this was verified with three other CFO’s of local non-profits, who all stated that it is inappropriate to give cash gifts.

In addition to the items mentioned above, there appears to be a violation of the MOU between Bethany House and Nassau County, specifically Section 18 Accounting Procedures; Records.

Audit Recommendations:

We recommend:

- a) Bethany House use charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230⁸ making only allowable expenditures that fulfil their mission;
- b) cash payments immediately cease to employees, Board members and relatives; and
- c) Bethany House should abide by the terms of their MOU with Nassau County.

AUDIT FINDING (3)

(3) Bethany House's Board of Directors Did Not Comply with NYS Not-for-Profit Law; The Founder/Former Executive Director Has Too Much Influence Over the Board of Directors

There was no evidence to support that the Board of Directors for Bethany House exercised proper management oversight for the hiring and firing of the 2018 Executive Director, and rehiring of the Founder/former Executive Director. The Board failed to comply with NYS non-profit Revitalization Act of 2013 when determining the compensation of the Founder/former Executive Director.

Non-Profit organizations have well defined roles for their Board of Directors as well as for their Executive Directors. The Board of Directors has the following responsibilities:

- Legal Oversight;

⁸ Code of Federal Regulations, Chapter II, Part 230, Cost Principles for Non-Profit Organizations.

Findings and Recommendations

- Safeguards of Public Trust;
- Management Oversight;
- Succession Planning; and
- Fiscal Oversight

Management oversight consists of hiring and reviewing the Executive Director (formal written review), defining the role, setting compensation, and removing ineffective Executive Directors. Auditors note that:

- In March 2018, Bethany House hired a new Executive Director to replace the Founder, Executive Director. There was no evidence that the Board voted on this appointment, nor documentation indicating the Board approved her salary.
- In July of 2018, this new Executive Director was terminated, and the Founder/former Executive Director reinstated herself, although there was no evidence of Board approval.

The only reference in Board minutes to any staffing changes was during the June 14, 2018 board meeting, where the Board raised serious concerns regarding the new Executive Director's understanding of Bethany House's mission and core values. One of the board members offered to interview senior staff and attempt to corroborate the Boards' concerns and report back to the Board as soon as feasibly possible.

Auditor review of subsequent Board minutes did not contain evidence of proper Board action to remove the Executive Director.

** On August 10, 2020 Auditors were notified that the current Executive Director tendered her resignation "due to activities contrary to other non-profits" that she worked for. The Board Chair and two additional Board Members resigned subsequent to the Executive Directors Resignation.*

On August 17, 2020, Auditors were notified by the Founder/former Executive Director, that since the Executive Director gave her resignation notice to Bethany House, the Board asked her to oversee the day-to-day operations to ensure a smooth transition. The Auditors were also told, that the Board was interviewing for an interim Executive Director and hoped to have someone in place in a few weeks. Auditors were informed on August 23, 2020, the Board requested that the Founder/former Executive Director move out of the Bethany House residence and they would bring in an interim executive director and make the Founder/former Executive Director an honorary non- voting Board member.

Auditors noted that the Founder/former Executive Director appeared to have too much influence over Bethany House's Board of Directors as evidenced during a review of the Executive Committee Board minutes from October 2019 where it was noted that:

- the minutes were **recorded by the Founder/former Executive Director and not the Board Secretary, who regularly records the minutes for all Executive Committee Board meetings.**
- the Board discussed and agreed on an annual stipend amount for the Founder/former Executive Director. The minutes did not note that the Founder/former Executive Director,

Findings and Recommendations

who was the acting Executive Director at the time of this meeting, stepped out of the room while her stipend amount was discussed.

The NYS Non-Profit Revitalization Act (NPRA) **prohibits the involvement of the person that will receive the compensation from being present, or from participating in the deliberation and voting on said compensation**⁹. The Board was in violation of NPRA guidelines by allowing the individual receiving the stipend to be present while deliberating and voting on the stipend amount.

The MOU with Nassau County specifically states in Section 12, the provider shall comply with any and all applicable Federal, State and Local laws. By violating the NPRA, Bethany House is not in compliance with their MOU with Nassau County.

Audit Recommendations:

We recommend:

- a) the Board of Directors of Bethany House follow guidelines for Non-Profit organizations and provide proper management oversight, specifically with regards to hiring and firing key employees;
- b) all key hiring and firings be properly documented in Board minutes; and
- c) comply with the terms of their MOU with the County.

AUDIT FINDING (4)

(4) Bethany House has not Exercised Proper Stewardship of Funds by Not Following Federal Guidelines: Certain Costs are Not Allowable with Not for Profit (Charitable) Funds

Bethany House routinely made cash disbursements for items that are unallowable for non-profits under Federal law.

The Code of Federal Regulations, Chapter II, Part 230 (formerly OMB Circular A-122) establishes cost principles for not-for-profit organizations. The Memorandum of Understanding between the County and Bethany House states that Bethany House must comply with these accounting guidelines. Bethany House has violated the terms of their MOU with the County specifically Section 18 which states: if the provider is a non-profit entity, they shall comply with accounting guidelines set forth in the Code of Federal Regulations.

⁹ NPRA Amended N-PCL §515(b)

Findings and Recommendations

In determining the reasonableness of a given expense, consideration must be given to whether the cost is recognized as ordinary and necessary for the operation of the organization.

Auditors reviewed four cash disbursements made to pay various credit card companies. The Founder/former Executive Director, COO and all residential directors and the maintenance worker have company credit cards which are supposed to be used for business expenses incurred by Bethany House.

Auditors noted several instances where improper credit card purchases were made and paid for with charitable funds:

- Pet food expenses totaling \$151.00;
- Animal Hospital bills \$256.00;
- A dog carrier for \$27.00;
- Movie tickets \$34.00; and
- Genetic testing kits \$199.00

A review of various credit card statement transactions revealed that the credit card was used to purchase pet food from Chewy.com, pay Baldwin Animal Hospital expenses, purchase movie tickets, and make various Amazon purchases which included buying a dog carrier and genetic testing kits.

Code of Federal Regulations, Chapter II, Part 230, specifically prohibits the use of donated funds for entertainment. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals transportation, and gratuities) are unallowable. When questioned about this by the auditors, the Founder/former Executive Director stated the movie tickets were purchased for residents staying at the house.

Additionally, cash disbursements were observed for a payment to a florist. A review of the check register for 2017 and 2018 revealed that more than \$1,200 of expenditures were made for flowers. When the Founder/former Executive Director was asked the reason for the florist transactions, auditors were told that she likes to buy flowers for the women on their birthdays.

Further review found, twenty-five pinecone wreaths at a cost of \$39.99 each were purchased from Kohls as Christmas decorations. Since there are three individual houses that Bethany House has as emergency shelter facilities, twenty-five wreaths seemed excessive.

Audit Recommendations:

We recommend:

- a) Bethany House use charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230, making only allowable expenditures that fulfil their mission; and
- b) Bethany House comply with the terms of their MOU with the County.

AUDIT FINDING (5)

(5) Bethany House Does Not Have a Formalized Petty Cash Fund and Is Using Petty Cash Inappropriately; Over \$6,000 in Unallowed Petty Cash Expenses Incurred

Auditors found that petty cash was being used to pay operating expenses.

Auditors were told that prior to October 2019 (which is when the auditors were reviewing the petty cash process) there was no formalized petty cash fund. No vouchers were observed for any of the petty cash disbursements during the audit.

According to guidelines for petty cash, the purpose of a petty cash account is to allow for reimbursement or purchase of minor, small dollar unanticipated business expenses.

Petty cash is usually a small amount of discretionary cash funds used for expenditures where it is not sensible to write a check. Petty cash is the most liquid asset of an organization and easily misappropriated if controls are not established.

According to Accounting Principles¹⁰ Petty Cash Best Practices, a ceiling should be established limiting the amount that can be reimbursed from petty cash such as \$25, \$100. Bethany House's Financial/Business Manual of Policies and Procedures indicates vouchers are required for all petty cash disbursements but does not set a dollar limit for reimbursements, which is an internal control weakness.

Auditors noted disbursements being made to the Founder/former Executive Director as reimbursement for items she purchased using petty cash. Auditors reviewed five petty cash disbursements made during the audit period.

Some of the items for which petty cash was used appear to be unallowable such as public relations expenses, purchasing domestic money orders, and buying Christmas gifts. Additionally, some of the dollar amounts expensed appear to be excessive.

The following irregularities were noted with the petty cash testing performed:

For 6/25/2017 disbursement:

- **\$600** deemed public relations expense **for gifts to women who helped out at the Board dinner** and who spoke at "Boxtown" which is an annual Bethany House fundraising event.
- **\$75** expense to **purchase a domestic money order with no indication of who the money order was payable to or the reason for the expense.**

¹⁰ Weygandt, Kieso, Kimmel. *Accounting Principles - 8th Edition*. John Wiley & Sons, 2008.

Findings and Recommendations

For 10/23/2017 disbursement:

- **\$60 fund raising expense for items purchased for Mah Jong night, no receipt provided,** and no explanation of items purchased.
- **Groceries purchased at Western Beef were paid for with an EBT card.** Cash reimbursement was requested for this transaction. An EBT card contains SNAP benefits¹¹ for individuals that qualify. SNAP issues electronic benefits that can be used like cash to help low income individuals purchase food.

For 1/22/2018 disbursement:

- **Christmas gifts totaling \$1,100** were paid to 5 individuals from petty cash. The only supporting documentation was a note card that had five individuals' initials and a dollar amount next to them. It should be noted that two of the five individuals that received gifts were employees or former employees of Bethany House.
- **Christmas tips of \$750** consisting of a \$250 tip for a staff holiday lunch; \$250 tip for landscaper; \$100 tip for Sanitation Dept., \$65 tip for mail carriers and \$25 tip to an unspecified individual.
- **Public relations amounts of \$540 with no documentation** as to what the disbursement was for and who received it.

For 8/3/2018 disbursement:

- Public relations expenses totaling **\$625 for choir who performed at the "Sisters Luncheon."** There was no indication of who performed at this function or how it related to the Emergency Housing Shelter.

*Auditors noted that for **all five petty cash disbursements reviewed, over \$450 was also spent on take-out food with no supporting documentation stating the purpose of the food expenditure or who was in attendance.**

Code of Federal Regulations, Chapter II, Part 230¹²- Selected Items of Cost, provides principles for non-profits to apply when establishing what costs are allowable to be purchased with non-profit funds. Section 14 on Entertainment Costs, states the following: ***"Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable."*** It appears that petty cash was being used by employees to pay for their meals when there was no business purpose.

Bethany House has violated the MOU with Nassau County, Section 12, Compliance with Law.

¹¹ Supplemental Nutrition Assistance Program is a federally funded food assistance program.

¹² Code of Federal Regulations, Chapter II, Part 230, Cost Principles for Non-Profit Organizations.

Findings and Recommendations

Audit Recommendations:

We recommend:

- a) The Bethany House Board of Directors adopt a policy for the management of petty cash funds. This should include dollar limits for reimbursements, required supporting documentation such as receipts for all petty cash reimbursements, detailing the purpose of expense and the party to whom money was paid;
- b) designate a petty cash custodian who will maintain a petty cash log;
- c) cease using petty cash as an operating fund; and
- d) Bethany House should comply with the terms of their MOU with Nassau County.

AUDIT FINDING (6)

(6) Internal Control Weaknesses with the Non-Profit's Cash Disbursements Result in Increased Risk for Fraud

A review of Bethany House's cash disbursements revealed a lack of internal controls over cash disbursements.

Proper internal controls over cash disbursements help reduce the risk of fraud, waste and abuse.

Proper internal controls consist of adequate supporting documentation for the cash disbursement, an approval of the expense and a correlation of the invoice number on the check or check stub to avoid duplicate payments.

Our review of 38 cash disbursement transactions revealed the following irregularities:

- **14 of 38 transactions did not have adequate supporting documentation attached.**
 - There was no contract with the Bethany House landscaper, and the only agreement was a text message from the chief operating officer to the landscaper with the addresses of four houses that required services. The locations where the services were to be provided were not specified.
 - **An invoice for an architectural proposal was submitted without a date. The expenditure was approved on 5/24/18 after the check was issued. The initial check to the vendor was issued on 11/8/17, however, auditors noted this check was voided and a replacement reissued on 5/17/18.** Checks should not be issued without proper approval.
 - **An employee was given a check for 9.5 hours of work. There was no hourly rate of pay indicated or stated days the employee was being paid for.**

Findings and Recommendations

- **Holiday bonuses were issued to employees.** There was no Board authorization for the bonuses specifying the amount to be paid to each employee. There was no mention of bonuses in the Employee Handbook. The only documentation observed was an email with the names of employees and an amount from \$100 to \$3,500. **The highest bonus, \$3,500, was given to the Founder/former Executive Director's nephew who is the Chief Operating Officer.**
- **6 of 38 disbursements reviewed were not approved by the Assistant to the Executive Director.** Per the financial director of Bethany House, the procedure for cash disbursements is that the assistant to the Executive Director reviews and approves bills, then the financial director prepares the checks and the Executive Director signs the checks.
- **3 of 38 disbursements did not have an associated invoice number on the check or check stub**

To prevent duplicate payments from being made, the associated invoice number and date of service should be present on either the check or check stub.

Audit Recommendations:

We recommend:

- a) Bethany House maintain adequate supporting documentation for all cash disbursements;
- b) proper approval is obtained before the expense is paid; and
- c) the check or check stub contain the associated invoice number and/or date to ensure a proper audit trail.

AUDIT FINDING (7)

(7) Related Party Transactions and Nepotism at Bethany House Violate the New York State Nonprofit Revitalization Act.

Auditors found that several questionable payments were made to relatives of the Founder/former Executive Director raising concern about nepotism and related party transactions.

Nepotism is the practice among those with power or influence of favoring relatives or friends especially by providing jobs. The practice of nepotism has a negative impact on operations.

A related party is a business term that denotes a person that is either directly or indirectly able to significantly influence or control another person. Specifically, in the nonprofit sector, a related party is generally a person who serves as a director, officer or key employee of the nonprofit organization or any affiliate thereof.

Findings and Recommendations

Under the New York State Nonprofit Revitalization Act¹³, the belief is that a related party transaction is invalid, and therefore, unenforceable, unless the organization's governing body determines that the transaction is fair, reasonable, and in the best interest of the organization.

Bethany House violated the terms of Section 12 of their MOU with Nassau County by not following the New York State Nonprofit Revitalization Act.

The Founder/former Executive Director Hired and Supervised Her Nephew.

Bethany House employs the nephew of the Founder/former Executive Director as the Chief Operating Officer. He was directly supervised by the Founder/former Executive Director. In addition to receiving compensation of \$186,570¹⁴, the nephew was driving a vehicle owned by Bethany House without paying income taxes on the personal use of the vehicle portion of his compensation. When the employee was requested to track his mileage for income tax reporting purposes, Auditors were informed he gave the vehicle back to Bethany House and removed the license plates. Several other employees indicated to the Auditors that this individual was not working a full-time schedule.

Questionable Cablevision Payments

A review of the Profit and Loss statement for the period October 2016-September 2017, indicated Cablevision bills totaling \$1,552.60 were paid with a notation "for Bethany House East," however, none of the Bethany House properties are referred to as "Bethany East." It was suggested to the auditors that these payments maybe for the personal cablevision bill of the COO (nephew of the Founder/former Executive Director).

Payments to Relatives

Auditors also noted payments totaling \$9,250 over a two-year period, made from the bank account in the Religious Order's name using a Bethany House address, to another relative of the Founder/former Executive Director, including a \$250 check with the notation of "Happy 19th Birthday" in the memo field.

Fundraising Contract Given to Board Member Relative

A further example of nepotism taking place at Bethany House is the hiring of a professional fundraiser with a \$76,000 contract. Auditors were informed that the individual hired as the professional fundraiser is the niece of a current Board member.

In addition, NYS Executive Order Article 7A Section 173¹⁵ requires professional fundraisers to register annually with the NYS Attorney General's Office. Auditors were told that this individual has refused to register with the New York State Attorney General's office as a professional

¹³ NYS Non-Profit Revitalization Act 2013

¹⁴ Compensation amount from IRS Form 990 for period ending 9/30/2018.

¹⁵ New York Consolidated Laws Executive Law – EXC §173_NY State Senate

Findings and Recommendations

fundraiser even though Bethany House has offered to pay all associated filing fees. Auditors searched the database online and found no listing for this fundraiser.

Audit Recommendations:

We recommend:

- a) the Board of Directors immediately institute a Code of Ethics policy which states a Director, Officer or key employee should not hire or supervise relatives;
- b) the Board of Directors investigate comparable not-for-profit salary guidelines for the Chief Operating Officer position;
- c) Bethany House hire fundraisers that comply with NYS Laws; and
- d) Bethany House comply with the terms of their MOU with Nassau County.

AUDIT FINDING (8)

(8) Twenty-One Part-time Employees Were Not Granted 77 Hours of Earned Compensated Time Off Totaling \$1,243

During a discussion with the Financial Director of Bethany House, Auditors were told that prior to July 2018, part-time employees were not granted earned compensated time off as required by the Living Wage law.

The Nassau County Comptroller's Office issued a limited review of Bethany House in 2013 which also cited Non-Compliance with the Living Wage law regarding compensated time off policies for part-time employees. Bethany House responded to the Comptroller's Office that the organization would amend their employee manuals and policies to include accrual of compensated leave time for part-time employees working at least 20 hours per week.

Auditor review of payroll records for 2017 and 2018 revealed, part-time employees were not accruing paid compensated time off until July 2018.

Based on the analysis of Bethany House's 2017 and 2018 payroll summary reports, auditors calculated that:

- in 2017, 7 employees were not granted 15.4 hours of earned compensated time off totaling \$245; and
- in 2018, 17 employees were not granted 61.6 hours of earned compensated time off totaling \$998 (three of the employees were not granted earned compensated time off in both years).

Exhibit III below lists the 2017-2018 amounts owed to the 21 employees.

Findings and Recommendations

Exhibit III

Bethany House of Nassau County Corporation Amounts Due to Employees for Earned Compensated Time Off 2017-2018						
Employee Number	2017		2018		Total	
	Hours	Amount	Hours	Amount	Hours	Amount
19	0.00	\$ -	11.17	\$ 179.46	11.17	\$ 179.46
4	0.00	\$ -	8.58	\$ 138.81	8.58	\$ 138.81
2	0.00	\$ -	6.37	\$ 104.50	6.37	\$ 104.50
11	0.00	\$ -	6.02	\$ 98.82	6.02	\$ 98.82
7	2.95	\$ 47.17	2.86	\$ 45.98	5.81	\$ 93.15
17	0.00	\$ -	5.58	\$ 90.36	5.58	\$ 90.36
20	2.45	\$ 38.59	2.31	\$ 37.08	4.76	\$ 75.67
13	2.68	\$ 43.01	1.85	\$ 30.29	4.53	\$ 73.30
15	3.41	\$ 54.30	0.00	\$ -	3.41	\$ 54.30
3	0.00	\$ -	3.25	\$ 52.66	3.25	\$ 52.66
16	0.00	\$ -	3.14	\$ 51.12	3.14	\$ 51.12
8	0.00	\$ -	2.95	\$ 48.47	2.95	\$ 48.47
6	0.00	\$ -	2.22	\$ 35.60	2.22	\$ 35.60
9	1.98	\$ 31.31	0.00	\$ -	1.98	\$ 31.31
14	0.00	\$ -	1.27	\$ 20.82	1.27	\$ 20.82
5	0.00	\$ -	1.06	\$ 17.06	1.06	\$ 17.06
10	0.00	\$ -	1.04	\$ 16.69	1.04	\$ 16.69
18	1.02	\$ 16.02	0.00	\$ -	1.02	\$ 16.02
12	0.00	\$ -	0.97	\$ 15.57	0.97	\$ 15.57
1	0.00	\$ -	0.92	\$ 15.15	0.92	\$ 15.15
21	0.92	\$ 14.56	0.00	\$ -	0.92	\$ 14.56
Totals	<u>15.41</u>	<u>\$ 244.96</u>	<u>61.56</u>	<u>\$ 998.44</u>	<u>76.97</u>	<u>\$1,243.40</u>

During the period 2017-2018, there were 67 instances where part time employees did not accrue paid compensated time off.

Audit Recommendations:

We recommend that Bethany House:

- a) pay the 21 employees the \$1,243 for earned compensated time off owed and provide proof of payment to the Comptroller's Office; and
- b) immediately update their Employee Handbook to reflect the proper compensated time off policy reflected in the Nassau County Living Wage Law.

Findings and Recommendations

AUDIT FINDING (9)

(9) Three Employees Were Underpaid a Total of \$75.96

During the Audit period, auditors found Bethany House paid 3 employees below the Living Wage rate for a short period of time. The total amount owed to three employees for underpayment of wages is \$75.96.

In 2017, one employee was underpaid \$0.29 for 38 hours, totaling \$11.02

In 2018, one employee was underpaid \$0.34 for 4 hours, totaling \$1.36 and another employee was underpaid \$0.34 for 187 hours, totaling \$63.58.

Bethany House stated that the three employees who were underpaid was due to clerical error.

Audit Recommendations:

We recommend that Bethany House:

- a) pay the three employees the amount owed to them; and
- b) provide proof of payment to the Comptroller's office.

Appendix A contains an analysis of Bethany House’s response to the Draft Audit report and the Auditors follow up comments to their response. The Bethany House response to the Audit Recommendations as submitted is included in Appendix B.

AUDIT FINDING (1)

(1) Stipend Payments were Improperly Invoiced, Authorized and Paid; Bethany House Failed to Maintain Adequate Supporting Documentation

Audit Recommendations:

We recommend:

- a) Bethany House implement a daily employee time reporting process that documents work dates, start and end times and the total hours worked by each employee every day including when an employee works for another scheduled individual who takes a day off or calls in sick;
- b) Bethany House properly document hours worked to support the calculation of stipend payments; and
- c) Bethany House comply with the terms of their MOU with Nassau County.

Bethany House Response to Finding (1) Recommendations

- a) *“Bethany House has implemented a biometric time keeping system to validate hours. Employees clock in and out and/or enter their time worked into the time tracking software. The organization is also documenting when an employee works for another scheduled individual who takes a day off or calls in sick.”*
- b) *“The stipend will be immediately reduced. Calculations to support stipend payments through to December 31, 2020 will be properly documented. All stipend payments will terminate on December 31, 2020.”*
- c) *“Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.”*

Auditors’ Follow Up Comments to Finding (1) Bethany House Response

- a) We are pleased that Bethany House has implemented a biometric time keeping system to validate hours including when an employee works for another scheduled individual who takes a day off or calls in sick.
- b) We are pleased that stipend payments are being reviewed and will be properly documented.
- c) We are pleased that Bethany House and the Board has reviewed and understands the precepts of the MOU and agrees to comply with the tenets and terms of their MOU with Nassau County.

AUDIT FINDING (2)

(2) Questionable Payments Exceeding \$35,000 were made to Bethany House Board Members, Employees and Relatives of the Founder/Former Executive Director from a Bank Account in the Religious Order’s Name, Listing the Bethany House Address

Audit Recommendations:

We recommend:

- a) Bethany House use charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230¹⁶ making only allowable expenditures that fulfil their mission;
- b) cash payments immediately cease to employees, Board members and relatives; and
- c) Bethany House should abide by the terms of their MOU with Nassau County.

Bethany House Response to Finding (2) Recommendations

- a) *“Bethany House agrees to use charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230, Cost Principles for Non-Profits.”*
- b) *“Cash payments to employees, board members and relatives have ceased and will not be used at any time in the future.”*
- c) *“Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.”*

¹⁶ Code of Federal Regulations, Chapter II, Part 230, Cost Principles for Non-Profit Organizations.

Appendix A – Auditor’s Follow Up Comments to Bethany House Response

Auditors’ Follow Up Comments to Finding (2) Bethany House Response

- a) We are pleased that Bethany House has agreed to comply with the Code of Federal Regulations, Chapter II, Part 230, Cost Principles for Non- Profit Organizations.
- b) We commend Bethany House for recognizing the need to cease making cash payments to employees, Board members and relatives.
- c) We are pleased that Bethany House and the Board has reviewed and understands the precepts of the MOU and agrees to comply with the tenets and terms of their MOU with Nassau County.

AUDIT FINDING (3)

(3) Bethany House's Board of Directors Did Not Comply with NYS Not-for-Profit Law; The Founder/Former Executive Director Has Too Much Influence Over the Board of Directors

Audit Recommendations:

We recommend:

- a) the Board of Directors of Bethany House follow guidelines for Non-Profit organizations and provide proper management oversight, specifically with regards to hiring and firing key employees;
- b) all key hiring and firings be properly documented in Board minutes; and
- c) comply with the terms of their MOU with the County.

Bethany House Response to Finding (3) Recommendations

- a) *“Bethany House Board is committed to following the guidelines for Non-Profit organizations and to providing management oversight, specifically regarding the hiring and firing of key employees. The Bethany House Board will adhere to the appropriate meeting rules of order and related meeting documentation going forward.”*
- b) *“The Bethany House Board is committed to improving documentation around key decisions in board meeting minutes.”*
- c) *“Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.”*

Appendix A – Auditor’s Follow Up Comments to Bethany House Response

Auditors’ Follow Up Comments to Finding (3) Bethany House Response

- a) We are pleased that Bethany House is committed to following the guidelines for Non-Profit organizations and providing proper management oversight. We commend Bethany House on agreeing to adhere to the appropriate rules of order and related meeting documentation.
- b) We are pleased that the Bethany House Board of Directors is committed to improving documentation regarding key decisions discussed at Board meetings and noted in their minutes.
- c) We are pleased that Bethany House and the Board has reviewed and understands the precepts of the MOU and agrees to comply with the tenets and terms of their MOU with Nassau County.

AUDIT FINDING (4)

(4) Bethany House has not Exercised Proper Stewardship of Funds by Not Following Federal Guidelines: Certain Costs are Not Allowable with Not for Profit (Charitable) Funds

Audit Recommendations:

We recommend:

- a) Bethany House use charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230, making only allowable expenditures that fulfil their mission; and
- b) Bethany House comply with the terms of their MOU with the County.

Bethany House Response to Finding (4) Recommendations

- a) *“Bethany House agrees to use charitable funds in accordance with the Code of Federal Regulations 2 CFR Part 230, Cost Principles for Non-Profits making only allowable expenditures that fulfill the Bethany House mission.”*
- b) *“Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.”*

Appendix A – Auditor’s Follow Up Comments to Bethany House Response

Auditors’ Follow Up Comments to Finding (4) Bethany House Response

- a) We commend Bethany House for agreeing to use charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230, Cost Principles for Non-Profit organizations.
- b) We are pleased that Bethany House and the Board has reviewed and understands the precepts of the MOU and agrees to comply with the tenets and terms of their MOU with Nassau County.

AUDIT FINDING (5)

(5) Bethany House Does Not Have a Formalized Petty Cash Fund and Is Using Petty Cash Inappropriately; Over \$6,000 in Unallowed Petty Cash Expenses Incurred

Audit Recommendations:

We recommend:

- a) The Bethany House Board of Directors adopt a policy for the management of petty cash funds. This should include dollar limits for reimbursements, required supporting documentation such as receipts for all petty cash reimbursements, detailing the purpose of expense and the party to whom money was paid;
- b) designate a petty cash custodian who will maintain a petty cash log;
- c) cease using petty cash as an operating fund; and
- d) Bethany House should comply with the terms of their MOU with Nassau County.

Bethany House Response to Finding (5) Recommendations

- a) *“Bethany House has adopted a petty cash policy. (attachment #1)”*
- b) *“Designated petty cash custodians have been assigned to maintain petty cash logs. This custodial responsibility will be added to the job description of each respective custodian. Each custodian’s compliance with this responsibility will be addressed in their respective annual performance review.”*
- c) *“Bethany House will cease the use of petty cash as an operating fund as detailed in the attached petty cash policy”*
- d) *“Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.”*

Auditors’ Follow Up Comments to Finding (5) Bethany House Response

- a) We commend Bethany House for adopting a formalized petty cash policy.
- b) It appears Bethany House has strengthened their petty cash practices by designating petty cash custodians who will maintain petty cash logs.
- c) We are pleased that Bethany House has agreed to cease using petty cash as an operating fund.
- d) We are pleased that Bethany House and the Board has reviewed and understands the precepts of the MOU and agrees to comply with the tenets and terms of their MOU with Nassau County.

AUDIT FINDING (6)

(6) Internal Control Weaknesses with the Non-Profit’s Cash Disbursements Result in Increased Risk for Fraud

Audit Recommendations:

We recommend:

- a) Bethany House maintain adequate supporting documentation for all cash disbursements;
- b) proper approval is obtained before the expense is paid; and
- c) the check or check stub contain the associated invoice number and/or date to ensure a proper audit trail.

Bethany House Response to Finding (6) Recommendations

- a) & b) *“Bethany House will adhere and strictly enforce our cash disbursement policy as outlined in our finance manual. Cash disbursements will not be made without proper supporting documentation and proper approval. We will maintain adequate supporting documentation for all cash disbursements.”*
- c) *“Bethany House will ensure that all checks and check stubs contain the associated invoice number and/or date.”*

Appendix A – Auditor’s Follow Up Comments to Bethany House Response

Auditors’ Follow Up Comments to Finding (6) Bethany House Response

- a) We commend Bethany House for agreeing to enforce the cash disbursement policies outlined in their finance manual.
- b) We are pleased that Bethany House will ensure cash disbursements contain proper documentation and approval prior to being paid.
- c) We are pleased that Bethany House has agreed to strengthen controls and ensure a proper audit trail exists.

AUDIT FINDING ((7)

(7) Related Party Transactions and Nepotism at Bethany House Violate the New York State Nonprofit Revitalization Act

Audit Recommendations:

We recommend:

- a) the Board of Directors immediately institute a Code of Ethics policy which states a Director, Officer or key employee should not hire or supervise relatives;
- b) the Board of Directors investigate comparable not-for-profit salary guidelines for the Chief Operating Officer position;
- c) Bethany House hire fundraisers that comply with NYS Laws; and
- d) Bethany House comply with the terms of their MOU with Nassau County.

Bethany House Response to Finding (7) Recommendations

- a) *“The Bethany House Board of Directors will adopt a Code of Ethics for Board Members (attachment #2). This policy specifically addresses that any director, officer or key employee may not be involved in the hiring or supervision of any relative or involved in any manner concerning decisions regarding compensation, conflict, discipline, or termination.”*
- b) *“The Bethany House Board of Directors will investigate the responsibilities and compensation for Chief Operating Officers in Non-Profit settings and adjust the compensation for the current Bethany House Chief Operating Office accordingly within the 20/21 fiscal year. In addition, the Bethany House Board of Directors will conduct a review of compensation for all Bethany House employees to ensure equity relative to responsibilities, education, experience, and seniority.”*
- c) *“When and if Bethany House hires a professional fund raiser as an employee or on a consultant basis the organization will comply with all fundraising and credentialing protocols, regulations, and New York State laws.”*

Appendix A – Auditor’s Follow Up Comments to Bethany House Response

- d) *“Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.”*

Auditors’ Follow Up Comments to Finding (7) Bethany House Response

- a) We are pleased that Bethany House has amended their Code of Ethics policy to ensure any director, officer, or key employee not be involved in the hiring and supervision of any relative or be involved in any decisions regarding compensation, conflict, discipline or termination.
- b) We are pleased that Bethany House’s Board of Directors will conduct a review of compensation for all Bethany House employees, including the Chief Operating Officer, to ensure that all salaries are comparable to other similar Non-Profit organizations.
- c) We are pleased that Bethany House has agreed to comply with New York State laws regarding fundraising protocols.
- d) We are pleased that Bethany House and the Board has reviewed and understands the precepts of the MOU and agrees to comply with the tenets and terms of their MOU with Nassau County.

AUDIT FINDING (8)

(8) Twenty-One Part-time Employees Were Not Granted 77 Hours of Earned Compensated Time Off Totaling \$1,243

Audit Recommendations:

We recommend that Bethany House:

- a) pay the 21 employees the \$1,243 for earned compensated time off owed and provide proof of payment to the Comptroller’s Office; and
- b) immediately update their Employee Handbook to reflect the proper compensated time off policy reflected in the Nassau County Living Wage Law.

Bethany House Response to Finding (8) Recommendations

- a) *“The 21 employees not granted earned compensation for time-off will be paid for the earned compensation owed October 1, 2020. Proof of payment will be provided once the checks have been issued.”*

Appendix A – Auditor’s Follow Up Comments to Bethany House Response

- b) *“The Bethany House Employee handbook has been updated to include the proper compensated time off policy reflected in the Nassau County Living Wage Law”.*

Auditors’ Follow Up Comments to Finding (8) Bethany House Response

- a) We are pleased that Bethany House has agreed to compensate employees who were not granted earned compensated time off.
- b) It appears that Bethany House has amended their Employee Handbook to reflect proper compensated time off policies in accordance with the Nassau County Living Wage law.

AUDIT FINDING (9)

(9) Three Employees Were Underpaid a Total of \$75.96

Audit Recommendations:

We recommend that Bethany House:

- a) pay the three employees the amount owed to them; and
- b) provide proof of payment to the Comptroller’s office.

Bethany House Response to Finding (9) Recommendations

- a) *“Bethany House recognizes that three employees were paid slightly below the Living Wage rate for a short period of time. All three employees will receive payment for the related underpayment on October 1, 2020.”*
- b) *“Proof of payment will be provided to the Comptroller’s office once the associated checks are issued.”*

Auditors’ Follow Up Comments to Finding (9) Bethany House Response

- a) We are pleased that Bethany House has agreed to compensate employees who were paid below the Nassau County Living Wage rate.
- b) We reiterate the need for Bethany House to provide proof of payment to these employees to the Comptroller’s office.

Appendix B – Bethany House’s Response

September 25, 2020



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**Response to the Limited Review Completed by the Office of the Nassau County Comptroller
Of
Bethany House of Nassau County Corporation**

AUDIT FINDING (1)

Recommendation (a)

Bethany House has implemented a biometric time keeping system to validate hours. Employees clock in and out and/or enter their time worked into the time tracking software. The organization is also documenting when an employee works for another scheduled individual who takes a day off or calls in sick.

Recommendation (b)

The stipend will be immediately reduced. Calculations to support stipend payments through to December 31, 2020 will be properly documented. All stipend payments will terminate on December 31, 2020.

Recommendation (c)

Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.

AUDIT FINDING (2)

Recommendation (a)

Bethany House agrees to use charitable funds in accordance with the Code of Federal Regulations, Chapter II, Part 230, Cost Principles for Non-Profits.

Recommendation (b)

Cash payments to employees, board members and relatives have ceased and will not be used at any time in the future.

Recommendation (c)

Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.

Appendix B – Bethany House’s Response

AUDIT FINDING (3)

Recommendation (a)

The Bethany House Board is committed to following the guidelines for Non-Profit organizations and to providing management oversight, specifically regarding the hiring and firing of key employees. The Bethany House Board will adhere to the appropriate meeting rules of order and related meeting documentation going forward.

Recommendation (b)

The Bethany House Board is committed to improving documentation around key decisions in board meeting minutes.

Recommendation (c)

Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.

AUDIT FINDINGS (4)

Recommendation (a)

Bethany House agrees to use charitable funds in accordance with the Code of Federal Regulations 2 CFR Part 230, Cost Principles for Non-Profits making only allowable expenditures that fulfill the Bethany House mission.

Recommendation (b)

Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.

AUDIT FINDING (5)

Recommendation (a)

Bethany House has adopted a petty cash policy. (attachment #1)

Recommendation (b)

Designated petty cash custodians have been assigned to maintain petty cash logs. This custodial responsibility will be added to the job description of each respective custodian. Each custodian’s compliance with this responsibility will be addressed in their respective annual performance review.

Recommendation (c)

Bethany House will cease the use of petty cash as an operating fund as detailed in the attached petty cash policy

Appendix B – Bethany House’s Response

Recommendation (d)

Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.

AUDIT FINDING (6)

Recommendation (a and b)

Bethany House will adhere and strictly enforce our cash disbursement policy as outlined in our finance manual. Cash disbursements will not be made without proper supporting documentation and proper approval. We will maintain adequate supporting documentation for all cash disbursements.

Recommendation (c)

Bethany House will ensure that all checks and check stubs contain the associated invoice number and/or date.

AUDIT FINDING (7)

Recommendation (a)

The Bethany House Board of Directors will adopt a Code of Ethics for Board Members (attachment #2). This policy specifically addresses that any director, officer or key employee may not be involved in the hiring or supervision of any relative or involved in any manner concerning decisions regarding compensation, conflict, discipline, or termination.

Recommendation (b)

The Bethany House Board of Directors will investigate the responsibilities and compensation for Chief Operating Officers in Non- Profit settings and adjust the compensation for the current Bethany House Chief Operating Office accordingly within the 20/21 fiscal year. In addition, the Bethany House Board of Directors will conduct a review of compensation for all Bethany House employees to ensure equity relative to responsibilities, education, experience, and seniority.

Recommendation (c)

When and if Bethany House hires a professional fund raiser as an employee or on a consultant basis the organization will comply with all fundraising and credentialing protocols, regulations, and New York State laws.

Recommendation (d)

Bethany House staff and board have reviewed and agree to strictly comply with the tenets and terms of the MOU with Nassau County. Administrative and management staff as well as board members will be provided with a review to ensure that they thoroughly understand the precepts of the MOU and their respective responsibility to adhere to and abide by the terms of the MOU.

Appendix B – Bethany House’s Response

AUDIT FINDING (8)

Recommendation (a)

The 21 employees not granted earned compensation for time-off will be paid for the earned compensation owed October 1, 2020. Proof of payment will be provided once the checks have been issued.

Recommendation (b)

The Bethany House Employee handbook has been updated to include the proper compensated time off policy reflected in the Nassau County Living Wage Law.

AUDIT FINDING (9)

Recommendation (a)

Bethany House recognizes that three employees were paid slightly below the Living Wage rate for a short period of time. All three employees will receive payment for the related underpayment on October 1, 2020.

Recommendation (b)

Proof of payment will be provided to the Comptroller’s office once the associated checks are issued.

