COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
Room 525 Health and Welfare Building
Harrisburg, Pennsylvania 17105-2675

KEVIN M. FRIEL
DIRECTOR

MAR - 4 2010

MAILING DATE

TELEPHONE NUMBER
(717) 772-2231
FAX NUMBER
(717) 705-9094

Mr. Kwame Kerr
President / CEO
Open Hearts Youth Services
300 Pennbrook Road
Stroudsburg, Pennsylvania 18360

E-mail: kwamekerr@hotmail.com

Dear Mr. Kerr:

I am enclosing the final report of the audit of Open Hearts Youth Services (OHYS) recently completed by this office. Your response has been incorporated into the final report and labeled Appendix B.

The final report will be forwarded to the Department of Public Welfare's (DPW) Office of Children, Youth and Families (OCYF) to begin the DPW's resolution process concerning the report contents. The staff of the OCYF may be in contact with you to follow-up on the corrective action actually taken to comply with the report's recommendations.

On March 2, 2010 you informed Mr. John Hoover, Bureau of Financial Operations Audit Manager, that you are temporarily residing in Florida and OHYS' mail is no longer being accepted at the former corporate office address of 300 Pennbrook Road, Stroudsburg, PA 18360. A current address has not been provided with correspondence requested to be sent to your e-mail address at kwamekerr@hotmail.com.

The report is being sent to the requested e-mail address and pending receipt of a current OHYS corporate address, the report is also being mailed to the OHYS corporate office address with the Department of Public Welfare.

I would like to express my appreciation for the courtesy and cooperation extended to my staff during the course of the fieldwork.

Some information has been redacted from this audit report. The redaction is indicated by magic marker highlight. If you want to request an unredacted copy of this audit report, you should submit a written Right to Know Law (RTKL) request to DPW's RTKL Office. The request should identify the audit report and ask for an unredacted copy. The RTKL Office will consider your request and respond in accordance with the RTKL (65 P.S. §§ 67.101 et seq.). The DPW RTKL Office can be contacted by email at: ra-dpwtkl@pa.gov.

Please contact Alex Matolyak of the Audit Resolution Section at (717) 783-7786 if you have any questions concerning this matter.

Sincerely,

Kevin M Friel

Kevin Friel

Enclosure

c: Mr. Richard Gold
Mr. Thomas Diehl
Mr. Edward Coleman

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TELEPHONE NUMBER
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FAX NUMBER
(717) 705-9094

Ms. Lynne D. Rainey, LSW, Director
Bucks County Children & Youth Social Services Agency
4259 West Swamp Road, Suite 200
Doylestown, Pennsylvania 18901

Dear Ms. Rainey:

I am enclosing the final audit report of Open Hearts Youth Services prepared by the Division of Audit and Review. You are receiving this report because your county contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

The Department's Office of Children, Youth and Families are in the process of dealing with the report's findings and recommendations.

If you have any questions concerning this matter, please contact Alex Matolyak, Audit Resolution Section, at (717) 783-7786.

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

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MAR - 4 2010

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TELEPHONE NUMBER
(717) 772-2231
FAX NUMBER
(717) 705-9094

Ms. Mary Germond, Director
Delaware County Children & Youth Services
20 South 69th Street, Third Floor
Upper Darby, Pennsylvania 19082

Dear Ms. Germond:

I am enclosing the final audit report of Open Hearts Youth Services prepared by the Division of Audit and Review. You are receiving this report because your county contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

The Department's Office of Children, Youth and Families are in the process of dealing with the report's findings and recommendations.

If you have any questions concerning this matter, please contact Alex Matolyak, Audit Resolution Section, at (717) 783-7786.

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

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BUREAU OF FINANCIAL OPERATIONS
Room 525 Health and Welfare Building
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KEVIN M. FRIEL
DIRECTOR

MAR - 4 2010

MAILING DATE

TELEPHONE NUMBER
(717) 772-2231
FAX NUMBER
(717) 705-9094

Ms. Pamela J. Buehrle, Director
Lehigh County Office of Children & Youth Services
Lehigh County Government Center
17 South Seventh Street
Allentown, Pennsylvania 18101

Dear Ms. Buehrle:

I am enclosing the final audit report of Open Hearts Youth Services prepared by the Division of Audit and Review. You are receiving this report because your county contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

The Department's Office of Children, Youth and Families are in the process of dealing with the report's findings and recommendations.

If you have any questions concerning this matter, please contact Alex Matolyak, Audit Resolution Section, at (717) 783-7786.

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
Room 525 Health and Welfare Building
Harrisburg, Pennsylvania 17105-2675

MAR - 4 2010

MAILING DATE

KEVIN M. FRIEL
DIRECTOR

TELEPHONE NUMBER
(717) 772-2231
FAX NUMBER
(717) 705-9094

Ms. Adelaide Grace, Director
Monroe County Children & Youth Services
730 Phillips Street
Stroudsburg, Pennsylvania 18360

Dear Ms. Grace:

I am enclosing the final audit report of Open Hearts Youth Services prepared by the Division of Audit and Review. You are receiving this report because your county contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

The Department's Office of Children, Youth and Families are in the process of dealing with the report's findings and recommendations.

If you have any questions concerning this matter, please contact Alex Matolyak, Audit Resolution Section, at (717) 783-7786.

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

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Room 525 Health and Welfare Building
Harrisburg, Pennsylvania 17105-2675

KEVIN M. FRIEL
DIRECTOR

TELEPHONE NUMBER
(717) 772-2231
FAX NUMBER
(717) 705-9094

MAR - 4 2010

MAILING DATE

Mr. Kevin Dolan, Administrator
Northampton County Children, Youth and Families Division
Governor Wolf Building
45 North Second Street
Easton, Pennsylvania 18042

Dear Mr. Dolan:

I am enclosing the final audit report of Open Hearts Youth Services prepared by the Division of Audit and Review. You are receiving this report because your county contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

The Department's Office of Children, Youth and Families are in the process of dealing with the report's findings and recommendations.

If you have any questions concerning this matter, please contact Alex Matolyak, Audit Resolution Section, at (717) 783-7786.

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

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MAR - 4 2010

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KEVIN M. FRIEL
DIRECTOR

TELEPHONE NUMBER
(717) 772-2231
FAX NUMBER
(717) 705-9094

Mr. Richard Gold
Deputy Secretary for Children, Youth and Families
Health and Welfare Building, Room 131
Harrisburg, Pennsylvania 17105

Dear Mr. Gold:

In response to a request from the Office of Children, Youth and Families (OCYF), the Bureau of Financial Operations (BFO) has completed a performance audit of Open Hearts Youth Services (OHYS). The audit was conducted in response to OCYF's concern of fiscal improprieties and noncompliance with fiscal regulations. The audit was primarily directed to assess OHYS' compliance with Chapter 3170, Allowable Cost and Procedures, governing fiscal policies for children and youth agencies. This audit focused on the period July 1, 2007 through September 10, 2009.

The report questions the reasonableness, necessity and eligibility of at least $189,987 of costs included in the Act 148 per diem rates billed to the county programs as identified in Findings Number 1, 4 and 6. Additional questioned costs could not be quantified due to lack of supporting documentation. The report also identifies noncompliance with tax and audit requirements, potential misappropriation of funds, and the need for implementation of financial controls.

Open Hearts Youth Services
Executive Summary

OHYS is a non-profit organization established in 2003 to provide residential care to children referred to by county children and youth programs. OHYS was licensed under Chapter 3800 regulations to provide residential services to 24 individuals at four group homes at a $165 daily per diem. During fiscal year 2008-09, noncompliance with program regulations resulted in OCYF issuing provisional licenses to OHYS which caused counties to begin removing and relocating the children placed at OHYS. OHYS voluntarily relinquished its licenses and ceased providing services in early September 2009.

The report findings and recommendations for corrective action are summarized below:

FINDING NO. 1	SUMMARY
The Purpose for Cash Withdrawals was Not Documented and Supported by Receipts	• The BFO identified 219 cash withdrawals totaling \$54,790 for which the purpose and use of funds were not identified, and the withdrawals were not supported by receipts.

HIGHLIGHTS OF RECOMMENDATIONS
If OHYS applies to become re-licensed, OCYF should ensure OHYS: • Constructs, implements and enforces a written petty cash procedures manual. OCYF and/or OA should: • Provide the audit results to state and/or local law enforcement agencies, absent provision of documentation refuting this finding as well as those identified in Report Findings 4 and 6.

FINDING NO. 2	SUMMARY
Failure to Comply with Federal Tax Requirements	• \$46,000 is due to the Internal Revenue Service (IRS) for non-submission of employer FICA taxes. • The condition of the records prohibited our determining if approximately \$91,000 in tax withholding was remitted to the IRS. • Information Forms W-2, 1099 and 990 were not prepared and filed.

HIGHLIGHTS OF RECOMMENDATIONS
OHYS should: • Continue to work with the IRS to resolve current federal tax issues. If OHYS applies to be re-licensed, OCYF should ensure OHYS: • Has qualified, competent staff to ensure compliance with federal tax regulations and payroll reporting requirements. OCYF and/or OA should: • Provide these audit results to the IRS, and the issues identified in Finding Number 6.

FINDING NO. 3	SUMMARY
Failure to Comply with Audit Requirements	• OHYS did not issue an independent audit for fiscal years 2006-07 and 2007-08 and has not contracted to obtain an audit for fiscal year 2008-09.

HIGHLIGHTS OF RECOMMENDATIONS
If OHYS applies to be re-licensed, OCYF should ensure OHYS: • Includes audit fees in their annual budget for funding the services of a certified public accountant and complies with county, state and federal audit requirements.

FINDING NO. 4	SUMMARY
County Checks Cashed at Check Cashing Facility	• The CEO cashed two county checks totaling $16,665 at a check cashing facility and incurred fees of $834. • Only $11,129 of the remaining $15,831 was deposited into an agency bank account.

HIGHLIGHTS OF RECOMMENDATIONS
If OHYS applies to be re-licensed, OCYF should ensure OHYS: • Demonstrates written cash policies have been established to include controls over deposits. OHYS should: • Deposit all revenue into an interest bearing agency account. • When offered by counties, have revenue direct deposited to strengthen controls and have access to funds as soon as possible.

FINDING NO. 5	SUMMARY
Assets Not in Possession of OHYS	• Three former executive employees did not return agency issued laptops or cell phones upon termination of employment.

HIGHLIGHTS OF RECOMMENDATIONS
OHYS should: • Formally contact the former COO and Executive Administrator to request return of the items and inform them that non-return of agency property may result in filing legal action against them. • Make final salary payment to the former Program Director as soon as possible accompanied by a written agreement and return of the laptop and phone.

FINDING NO. 6	SUMMARY
Questionable and Unsupported Expenditures	• Five personal vehicles of executive management were included on the agency auto insurance policy for various time periods between fiscal years 2005-06 and 2008-09. • 55 of 105 payments for auto repairs and maintenance totaling $41,294 were not supported by receipts. • Gasoline payments totaled $43,801. Of the 632 payments examined 495 were not accompanied by a receipt and 628 could not be traced to a vehicle. • 12 of 15 vehicle rental payments totaling $5,262 were not supported by receipts. • Mileage logs were not maintained for any vehicles. • Three employees and one other individual provided OHYS with six loans totaling $55,939 at a 250% interest rate. Interest costs totaled $5,314 for these two week loans. • A $445 invoice for plumbing services was paid twice. • Bank overdraft fees were charged and paid 38 times totaling $1,440. • Inappropriate and excessive use of cell phones including international call and texts. • 48 of 72 payments to contractors totaling $25,565 were not supported by invoices. • $8,950 was paid to conduct a basketball camp attended by non-residents. $2,000 of proceeds could not be identified in the financial records. • OHYS paid $9,341 in August 2009 for non-allowable fundraising expenses. • OHYS paid $2,359 to nonprofit organizations affiliated with the former COO and Executive Administrator. • The former COO and Executive Administrator may have continued to receive health insurance coverage after their termination.

HIGHLIGHTS OF RECOMMENDATIONS
If OHYS applies to be re-licensed, OCYF should ensure OHYS management: • Receive training and understand regulations governing Chapter 3170, Allowable Cost and Procedures. • Has implemented adequate controls over purchasing procedures to promote prudent buying and compliance.

FINDING NO. 7	SUMMARY
Lack of Internal Controls	• Lack of controls over financial transactions is the main cause for issues discussed in Findings 1 through 6. • The lack of controls is credited to the absence of qualified, experienced fiscal personnel and board members. • Weak and ineffective board and failure to comply with audit requirements may have prevented control weaknesses from being identified sooner.

HIGHLIGHTS OF RECOMMENDATIONS
If OHYS applies to be re-licensed, OCYF should ensure OHYS: • Abides by the recommendations discussed in Findings 1 through 6.

OBSERVATION	SUMMARY
Ineffective Board of Directors Contributed to the Failure of OHYS	• The board of directors was limited to the CEO and his wife, the former COO, and former Executive Administrator during fiscal years 2007-08 and 2008-09. • An annual board meeting was not held and an annual financial report was not presented for fiscal year 2008-09. • OHYS could not conduct business due to the lack of a quorum from April 28, 2008 through agency closing in September 2009.

Background

OHYS is a non-profit organization established in 2003 to provide residential care to children referred to by county children and youth programs. OHYS began accepting children in November 2005 at four licensed group homes located in Stroudsburg and Tobyhanna. The OHYS homes were licensed under Chapter 3800 regulations to allow residential services for up to 24 children. OHYS provided the services through unit of service funding. The daily per diem charged to the counties for fiscal year 2008-09 was $165. Six eastern counties within the Commonwealth referred children to OHYS. Bucks County provided approximately $1.2 million or 57% of the $2.1 million revenue received during the audit period. During fiscal year 2008-09, noncompliance with program regulations resulted in OCYF issuing provisional licenses which caused counties to begin removing and relocating the children placed at OHYS. During the course of the audit, OHYS voluntarily relinquished its licenses and ceased providing services in early September 2009.

Fiscal policies for children and youth social service programs are set forth in Pennsylvania Code, Title 55, Chapter 3170. OHYS is also governed by Circular No.

A-122, issued by the Executive Office of the President of the United States, Office of Management and Budget (OMB), which establishes cost principles for non-profit organizations.

Objective, Scope and Methodology

The audit objective, developed in concurrence with OCYF was:

- To determine if OHYS is in compliance with Pennsylvania Code, Title 55, Chapter 3170, Allowable Costs and Procedures.

The scope of our audit was limited as various supporting cost documentation was not on file at OHYS. Because of this scope limitation, we were unable to satisfy ourselves as to the composition, reasonableness, and allowability of certain costs.

In pursuing our objective, the BFO interviewed current and former management and staff members from OHYS. We also reviewed accounting records, financial records, and other pertinent data necessary to complete our objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Government auditing standards also require that we obtain an understanding of internal controls that are relevant to the audit objective described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of the effectiveness of those controls. Based on our understanding of the controls, a number of deficiencies were identified. These deficiencies and other areas where we noted an opportunity for an improvement in management's controls are addressed in the findings of this report.

Fieldwork for this audit took place intermittingly between September 10, 2009 and November 12, 2009. The report, when presented in its final form, is available for public inspection.

Results of Fieldwork

Finding No. 1 – The Purpose for Cash Withdrawals was Not Documented and Supported by Receipts

The BFO identified 219 cash withdrawals totaling $54,790 were not supported by receipts, with the purpose and use of funds not identified. An additional 27 cash withdrawals totaling $4,742 were documented. OHYS considers these withdrawals as petty cash expenditures. OHYS does not have written policies and procedures governing the use of petty cash. The CEO and former COO were the only authorized users of debit cards, which were the primary method used for the cash withdrawals. We could not determine which individual withdrew funds for 181 of the 246 withdrawals totaling $43,478. For the remaining 65 withdrawals, ATM receipts or withdrawal slips identify the CEO initiated 32 withdrawals totaling $5,815 and former COO initiated 33 withdrawals totaling $10,239.

According to the CEO and former COO, the need for petty cash was limited to incidentals, weekend needs and recreation for the children. We identified withdrawals, however, were often taken several times per week and sometimes multiple times per day. Additionally, many of the cash withdrawals exceeded what would be considered a reasonable amount for incidental or weekend use. Some examples include the following:

- On August 14, 2007 ATM machines were visited five times to withdraw a total of $710. Receipts are not available to document this expense.

- On December 11, 2007 $1,060 was withdrawn during two transactions. Receipts are not available to document this expense.

- Two days later, on December 13, 2007, $7,000 was withdrawn. Although accounting records indicate that this transaction was a transfer between bank accounts, the deposit was not recorded on the applicable second bank account statement. Receipts are not available to document this expense.

- From January 14 to January 17, 2008 $2,250 was withdrawn. Receipts are not available to document this expense.

- $500 was withdrawn from an ATM machine on each of March 25 and March 26, 2008. Receipts are not available to document this expense.

- The former COO withdrew $3,000 on July 7, 2008. Receipts are not available to document this expense.

- From July 20 to July 21, 2008 the former COO made four withdrawals from ATM machines totaling $1,600. Receipts indicate that $1,400 was paid to a contractor for building repairs. The same contractor was paid via two checks from a separate bank account totaling $2,200 less than ten days later. Supporting documentation for the $2,200 could not be located. We could not determine why payments to this contractor were split using different payment methods, why cash was used to pay for high cost repairs, or if the contractor was paid in excess of amounts billed.

Chapter 3170.92 requires documentation be on file to support all costs funded by the Department of Public Welfare, with records kept for a minimum of five years after the close of the fiscal year. In addition, the non-documentation of use of the cash withdrawals violates agency by-laws. The By-Laws of OHYS state that the board Treasurer, who is the former COO, "shall disburse the funds of the corporation as ordered by the board, taking proper vouchers for such disbursements."

When costs are not adequately supported a determination cannot be made as to the necessity and justifiability of the costs for program operation. In addition, the use of cash greatly increases the risk of misappropriation.

According to the CEO, the agency had an unwritten policy that the use of cash provided to employees must be documented with receipts. However, we were told that the policy was not enforced as staff disagreed with the policy. According to the former COO, he provided receipts to accounting staff supporting expenditures of all withdrawals he initiated but does not know where the receipts are currently located.

Recommendations

The BFO recommends that if OHYS applies to be re-licensed, OCYF should ensure OHYS has constructed a written petty cash procedures manual. Procedures should address, but not be limited to, establishment of an account custodian, a maximum balance in the petty cash account, types of purchases permitted, a transaction dollar limit, and the need for staff to obtain receipts for all transactions or be held liable for unaccounted funds.

Absent provision of documentation refuting this finding as well as those identified in Report Findings 4 and 6, the BFO recommends that the OCYF and/or the Office of Administration (OA) provide the audit results to state and/or local law enforcement agencies for further investigation.

Finding No. 2 – Failure to Comply with Federal Tax Requirements

Payroll Taxes Not Submitted

We determined OHYS has a minimum liability of $46,000 due to the IRS for non-submission of federal payroll taxes. Based on our analytical testing, the $46,000 includes an approximate $37,000 for the employer share of FICA taxes with the balance representing penalties and interest. Due to the poor condition of the accounting records and non-availability of federal tax reports and IRS notices, we could not determine whether an approximate $91,000 in additional taxes representing the employees' FICA share and federal, state and local taxes was withheld from employees but not submitted to the appropriate offices.

According to the former COO, he made the decision to stop paying payroll taxes in order to have funds available to pay wages and other operating expenses. The CEO concurred the employer FICA match was not submitted to the IRS. He also informed us the IRS verbally notified OHYS that the tax liability was approximately $46,000. The CEO did not provide us with an IRS notice of tax due as requested.

Required Employee and Company Tax Forms Not Filed

Employee Form W-2, Wage and Tax Statements, were not prepared for calendar year 2008. These forms are required to report wage and tax information to employees and the IRS. The CEO informed us that the IRS has instructed him to gather the information necessary to prepare the forms for calendar years 2008 and 2009. OHYS may incur penalties of $50 per form for calendar year 2008 because forms were not filed by August 3, 2009. Calendar year 2009 forms are due to employees by February 1, 2010 and due to the IRS by March 1, 2010, or March 31, 2010 if filing electronically.

We could not determine if Form 1099-MISC, Miscellaneous Income, was prepared, mailed and filed during the audit period when required. This form must be prepared when, during a calendar year, OHYS makes payments in excess of $600 for certain types of services. Some examples include payments for rent, health and medical services, subcontractors, attorney fees, etc. for which OHYS had made applicable payments exceeding $600 during the audit period. OHYS may incur penalties of $50 per form for calendar years 2007 and 2008 because forms were not filed by August 1st of the subsequent years. Calendar year 2009 paper forms are due by March 1, 2010 or March 31, 2010 if filed electronically.

In addition to the non-submission of employee tax forms, Form 990, Return of Organization Exempt From Income Tax, was also not prepared and filed with the IRS for fiscal years 2007-08 and 2008-09. OHYS was required to file this form based on the amount of its gross receipts and total assets for these fiscal years. The CEO informed us OHYS could not afford to pay for the preparation of these information returns. OHYS is subject to a penalty of $100 for each day the form is not filed after the November 15th due date. At this point in time penalties exceed $40,000.

Recommendations

The BFO recommends that OHYS continue to work with the IRS to resolve the current federal tax issues.

The BFO also recommends if OHYS applies to be re-licensed, OCYF should ensure OHYS has contracted for professional payroll and tax services and/or has hired a qualified individual capable of ensuring compliance with federal tax regulations.
The BFO finally recommends the OCYF and/or the OA provide the audit results to the IRS.

Finding No. 3 – Failure to Comply with Audit Requirements

OHYS did not issue an independent audit for fiscal years 2006-07 and 2007-08 as required by county contract and Department of Public Welfare (DPW) audit requirements. Additionally, OHYS has not contracted to obtain an audit for fiscal year 2008-09.

The county children and youth contracts and DPW audit guidelines require providers expending more than $500,000 or more in combined county, state and federal funds during the program year have an audit of those funds made in accordance with generally accepted government auditing standards. Nonprofits that expend $300,000 or more in combined public funds must have an independent auditor conduct annual examinations of their compliance with contract terms and conditions. In addition, nonprofit organizations that expend federal awards of $500,000 or more during its fiscal year must have an audit made in accordance with the provisions of OMB Circular A-133. Due to lack of documentation regarding federal funding, the BFO could not determine if federal audit requirements have been met by OHYS for fiscal years 2007-08 and 2008-09. At minimum, OHYS would require an independent audit be performed as expenditures exceeded $500,000 in combined county, state and federal funds.

The CEO informed us OHYS could not afford the cost of audits. The absence of an independent audit does not provide OHYS management, government agencies, and other users of the report with the assurance needed to make informed decisions. Furthermore, OHYS' failure to obtain audit reports adversely affects their ability to obtain loans and does not provide transparency and accountability to the public.

Recommendations

The BFO recommends that if OHYS applies to be re-licensed, OCYF should ensure OHYS obtains the required audits on a timely basis.

Finding No. 4 – County Checks Cashed at Check Cashing Facility

The CEO cashed two county checks at a local check cashing facility in the amounts of $11,715 and $4,950. The facility charged a 5% check cashing fee which resulted in OHYS incurring $834 of unallowable and unnecessary fees.

The $11,715 check was cashed on Friday, December 12, 2008. The proceeds were subsequently deposited into an OHYS account the following Monday less a $586 fee. The CEO could not provide a rational explanation why this check was not deposited directly into an agency account.

The $4,950 check was cashed at the same vendor in August 2009 incurring a $248 fee. The CEO informed us the cash proceeds were used to pay $2,700 compensation to two employees, $1,930 for fund raising expenses with the balance for miscellaneous items. Due to the accounting system not being maintained beyond July 2009 and lack of documentation for the employee payments, we could not determine if the cash was used as claimed or if other revenue sources besides the $4,950 was used to pay for the alleged expenses.

Business best practices dictate that revenue be deposited directly into a business bank account. When revenue is not deposited directly into a company bank account the risk of cash misappropriation greatly increases. In addition, unnecessary check cashing fees were incurred.

Recommendations

The BFO recommends that if OHYS applies to be re-licensed, OCYF should ensure it demonstrates written cash policies have been established to include controls over deposits. All incoming revenue should be promptly deposited into an interest bearing agency account. The BFO also recommends, for counties offering direct deposit, OHYS should have revenue direct deposited to strengthen controls and have access to the funds as soon as possible.

The BFO further recommends that the OCFY and/or the OA provide the audit results to state and/or local law enforcement agencies to further investigate the use of the $4,702 not deposited into an agency bank account, absent provision of documentation refuting this finding.

Finding No. 5 – <u>Assets Not in Possession of OHYS</u>

The CEO informed us three former executive employees did not return their agency issued laptop computers or cell phones upon end of employment. A plan was in place with the former Program Director to return the laptop and cell phone after receipt of unpaid salary. No plans have been made to obtain laptops and phones held by the former COO and former Executive Administrator. The BFO was unable to contact the former COO regarding the return of the assets. The Executive Administrator was contacted and agreed to provide the assets to OHYS upon request. An employee separation agreement signed by the former COO and former Executive Administrator in February 2009 specifies that laptops and cell phones must be returned to OHYS.

<u>Recommendations</u>

The BFO recommends the CEO formally contact the former COO and Executive Administrator to request return of the items. A refusal to return agency property should consider filing legal action against the former employees.
The BFO also recommends the CEO make final salary payment to the former Program Director as soon as possible accompanied by a written agreement and return of the laptop and phone.

Finding No. 6 – <u>Questionable and Unsupported Expenditures</u>

The BFO determined various expenditures incurred by OHYS are unallowable based on criteria established in Chapter 3170 and OMB Circular No. A-122. The expenditures in part include inappropriate and/or unnecessary costs incurred for vehicles, phones, bank and loan fees, recreation, improvements and fundraising. Chapter 3170.11 states, "The Department will participate financially in the payment of those expenditures which are necessary and justifiable for program operation." Chapter 3170.92 states, "County agencies shall maintain sufficient and appropriate records and data to justify payment for expenses by the Department. The local authorities or contractors shall maintain books, records, documents and other evidence and accounting procedures and practices, sufficient to reflect properly all direct and indirect costs of whatever nature claimed to have been incurred and anticipated to be incurred for funds supported by the Department and for which reimbursement is claimed. Records shall be kept for a minimum of 5 years after the close of the fiscal year."

Regarding reasonableness of costs, OMB Circular A-122 states, "A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs." OMB Circular A-122 further states, "In determining the reasonableness of a given cost, consideration should be given to whether the individuals concerned acted with prudence in the circumstances, considering the responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government."

Although some of the following expenditures are not specifically identified as an unallowable cost per regulations, the BFO is questioning these costs due to the cost not being reasonable, nor necessary and prudent, especially considering the poor financial condition of OHYS at the time these costs were incurred.

Vehicle Expense - Insurance

Despite typically having only three to four agency owned vehicles per year, OHYS incurred $34,348 in auto insurance for the three year period ended June 2009. In addition to insurance on agency vehicles, OHYS made auto insurance payments for five vehicles which were included on the agency auto insurance policy for various time periods between fiscal years 2005-06 and 2008-09. Three of the vehicles were driven by the former COO or a family member; one was driven by the former Executive Administrator; and one by the former IT Director. The former COO said he received approval from the CEO to have personal vehicles on the OHYS policy. However, the CEO informed us he only authorized the former IT Director's vehicle for insurance coverage based on the extensive use of the vehicle for OHYS business purposes. Mileage logs were not maintained for any vehicles whether OHYS or personal vehicles.

Bureau of Motor Vehicles' records dated September 29, 2009 identify one of the five personal vehicles was being leased as an OHYS vehicle. The CEO said he did not authorize this lease, and we found no evidence OHYS funds were used to make lease payments. The leasing of a personal vehicle would require payment of monthly sales tax. We could not determine, however, if sales tax is being paid by the individual driving the vehicle which is inappropriately titled to the nonprofit organization.

Vehicle Expense – Repair and Maintenance

The OHYS made approximately 105 payments to auto repair and maintenance vendors totaling $69,705 during the audit period. 55 of the 105 payments reviewed totaling $41,294 were not adequately supported by receipts. Nine of the 50 supported payments totaling $4,800 were for services performed on personal vehicles owned by the CEO, former COO, former Executive Administrator, and a former Child Care Worker. The CEO said he did not authorize payment for repairs to personal vehicles. Mileage logs were not maintained for any vehicles whether OHYS or personal vehicles.

Vehicle Expense - Gasoline

The OHYS made approximately 632 gasoline payments totaling at least $43,801 during the audit period. Mileage logs were not maintained for any vehicles whether OHYS or personal vehicles. Review of payments identified 495 were not accompanied by a receipt and 628 could not be traced to a specific vehicle. The four supported payments were paid to a gasoline credit card company. The credit card statements identify

$1,535 was paid for gasoline for the CEO's personal vehicle. The CEO responded fuel was purchased for his personal vehicle with OHYS funds because he was using the vehicle to transport children.

When mileage logs separating personal from business miles are not maintained, employees, as in this case, may be reimbursed for both personal and business use of their vehicles. Regarding use of personal automobiles, Chapter 3170.57 states, "The Department will participate in a mileage allowance to reimburse employees for the use of personal automobiles when on official business for the county agency, or provider." OMB Circular No. A-122 states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees." OHYS did not report the cost of personal use of vehicles as taxable income to its employees.

Vehicle Expense - Rental

Fifteen payments for vehicle rentals totaling $5,891 were identified. Twelve of the 15 payments totaling $5,262 were not adequately supported by receipts. The three remaining payments totaling $629 were supported by an invoice for the purpose of an eight-day rental taken by the former COO. The former COO informed us he needed to rent the vehicle because an agency vehicle was in need of repair. The CEO responded he did not see the need for nor did he know why the former COO rented a vehicle driven for 758 miles.

High Interest Loans

For the period July 2006 through July 2009, three employees and one other individual provided OHYS with six loans totaling $55,939. The interest rate charged to OHYS for each of the loans approximated 250%. Although one promissory note identifies a non-employee loaned $14,000 to OHYS, accounting records identify the loan was paid back to the Executive Administrator. The Executive Administrator informed us the loan was paid to her because the lender was her mother and she and her mother have a joint bank account. Although each of these loans were paid back in full within two weeks from the loan date, the 250% interest rate resulted in interest costs of $5,314.

The CEO and former COO informed us OHYS needed four of the six loans to make payroll. The remaining two loans totaling $9,139 were used to partially fund a vacation for 18 residents and nine staff. They also said late payments from counties often contributed to cash flow problems, and banks would not approve loans for the agency.

Chapter 3170.61(e) states, "Interest paid for funds borrowed from a lending institution is an allowable expense in the case where funds are borrowed to meet cash flow requirements of ongoing programs." To be allowable, the following criteria must be met:

(1) "The children and youth program can document in writing that its cash flow requirements are such that obligation could not be met without borrowing funds.
(2) The loan was obtained at the lowest interest rate available as evidenced by quotations from three lending institutions.

(3) Invoices, expenditures reports, or other demands for payment from the Department will have been accurately completed on the forms and by the date prescribed by the Department."

We identified OHYS did not document and/or retain documentation to support each of the above criteria was met. The lack of documentation and unreasonable loan rates paid resulted in a determination that interest did not meet the standards required to be considered an allowable cost.

Double Payment of Invoice

A $445 invoice for plumbing services was paid twice, once in December 2008 using an agency debit card and once in February 2009 via check. The CEO informed us at the closing conference that he is working with the vendor to receive a refund.

Bank Overdraft Fees

The OHYS was charged and paid 38 bank overdraft fees totaling $1,440 during the audit period. The CEO informed us in times of financial distress OHYS post-dated checks to the date county payments were expected to be received. When payments were not received on the expected date an overdraft fee was incurred. A former bookkeeper informed us overdraft fees were also incurred because the accounting office was not always informed of the date and amount of purchases made with agency debit cards.

Inappropriate and Excessive Use of Agency Cell Phones

In addition to $25,716 paid for land lines, approximately $18,000 in service costs was paid for use of four company cell phones. Three phones were assigned to executive management and a fourth prepaid phone was used when service to other phones was shut off due to late payments. Factors contributing to the high cellular costs included phone use often exceeded their 2,000 minute allowances, and additional charges incurred for both international calls and international text messages. In one instance, a cell phone was used for over 43 hours during a month. We could not determine the purpose of the calls due to lack of call detail. The use of agency phones for purpose of international calling and texting is not necessary to conduct agency business. The CEO stated the amount spent on cell phones is "ridiculous."

We also identified the CEO received a new phone through an insurance policy and failed to return the old phone. OHYS paid a $620 charge for not returning the phone. The CEO informed us he was not aware he had to return the phone or that OHYS incurred a $620 charge, and he would try to return the old phone for a refund.

OMB Circular No. A-122 states, "Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees." The OHYS did not track nor report the value of personal cell phone use as taxable income to its employees.

Unnecessary Improvement of Leased Facility

OHYS incurred a cost of $7,250 for improvements made at one of its leased facilities. The cost included $5,250 to pave a driveway and $2,000 for the installation of a basketball pole, backboard and hoop. The improvement was made at a time when OHYS was experiencing financial difficulties, and borrowed $23,139 from two employees at a 250% interest rate to meet payroll and operating expenses.

The CEO informed us the use of basketball courts at the adjacent high school resulted in physical altercations involving agency children. The improvements were made so children could play basketball at the residence.

Payments to Contractors

Forty eight of 72 payments to contractors totaling $25,565 were not adequately supported by invoices.

Vacation in Ocean City, Maryland

OHYS paid $15,669 in July 2008 for 18 residents and nine staff to take a trip to Ocean City, Maryland for five days. OHYS borrowed $9,139 at a 250% interest rate from two employees to help pay for this trip. The CEO informed us he did not participate in the trip and disagreed with the decision to go due to lack of finances. The former COO informed us he made the decision to allow the trip based on the premise children should have an opportunity to vacation at the beach regardless of the financial situation of the agency.

Basketball Camp

OHYS paid $8,950 to conduct a basketball camp at a local university in June 2007. The invoice identifies 50 participants attended the camp. Based on OHYS enrollment at the time of the camp, approximately 50% of the participants were OHYS residents and staff with non-OHYS residents comprising the balance. The CEO informed us the former COO was responsible for operation and funding of the camp. Non-residents were supposed to pay $300 each but he believed most paid $50 to $80.

The former COO explained the camp was held to expose the children to a college campus in hopes of generating an interest in obtaining a college education. He believed OHYS was reimbursed approximately $2,000 for the attendance of non-OHYS residents. We could not identify any camp fees recorded and deposited into OHYS accounts.

Non-Allowable Fundraising Costs

OHYS paid at least $9,341 to hold a fundraiser at a local resort in August 2009. The CEO informed us that the fundraiser was held as a last attempt to save OHYS from closing. The explanation did not agree with the purpose shown on internet advertising which identified that proceeds were to be used for construction of a 100,000 square foot boys and girls center.

Internet advertising and written flyers informed participants $2,000 to $5,000 cash and prizes would be awarded to the winners. According to the CEO, the fundraiser generated only about $300 in gross proceeds, and prizes were not awarded to participants because the fundraiser was not completed because most participants arrived at the wrong location. The BFO could not determine how much revenue, if any, was received because the event took place after the cut-off date of the accounting records and the CEO could not produce an accounting of the fundraiser.

OMB Circular A-122 states, "Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable." The $9,341 cost of the fundraiser should be considered a non-allowable cost.

Payments to Related Parties of the Former COO and Former Executive Administrator

OHYS paid $909 to a fuel vendor to supply a nonprofit organization with heating oil. The $909 was split into two payments ($300 and $609) from two different bank accounts. According to a written, notarized statement from the founder of the entity receiving the oil, OHYS' former COO was the Executive Director of the organization at the time the heating oil was received. Although the former COO informed us he made two payments to reimburse OHYS for the $909, he did not provide us with documentation of the personal reimbursement, and OHYS records do not identify receipt of the $909.

OHYS also paid $1,450 to another nonprofit organization. OHYS' former COO and Executive Administrator are currently executive management at a group home having the same name as this organization. The BFO could not determine the purpose of this unsupported payment. Although the former COO and Executive Administrator informed us the $1,450 was payback of a loan, we found no documentation of this loan in OHYS records.

Video Game Systems and Accessories

OHYS made eight purchases totaling $3,261 from a video game vendor during the audit period. Receipts supporting what was purchased were not on file and available for review. The CEO informed us the purchases were for video game systems, accessories and games purchased for use by children in the four OHYS group homes. The CEO further informed us two of the systems were stolen and two replacement systems were subsequently purchased.

Health Benefits May Have Continued After Employee Termination

The OHYS employees receiving health care benefits were limited to the CEO, COO and Executive Administrator. The former COO informed us he and the former Executive Administrator received health benefits for one and possibly two months after their employment ended on February 2, 2009. The CEO confirmed the employees may have received coverage prior to removing them from the policy. The last health insurance invoice on file was for February 2009. The invoice identified the above three employees received coverage at a monthly cost of $2,669. Although health insurance invoices were not available for the period March through July 2009, accounting records identify the payment of $13,310 or an average monthly payment of $2,662 was made for health insurance during this period. This supports the probability insurance coverage continued after termination. The CEO is researching whether the former employees may have been added back to the policy without proper authorization or whether the agency mistakenly over paid insurance for the two terminated employees.

When costs are not adequately supported a determination cannot be made as to the necessity and justifiability of the costs for program operation. In addition, when unnecessary expenditures are made, funds are not available to meet legitimate financial obligations of the agency. Payments for unnecessary and non-allowable costs greatly contributed to OHYS' poor financial condition and eventual closing.

The former COO informed us he considered the best interests of the children in all financial decisions for which he was responsible. The CEO informed us he was not aware of many of the transactions questioned per audit, and was in disagreement with many decisions made by the former COO. He further said questioned costs related to his personal expenses should be offset by personal loans he provided to the agency. We could not locate nor were provided with documentation supporting these loans to the organization.

Recommendations

The BFO recommends if OHYS applies to be re-licensed, OCYF should ensure management receives training and is knowledgeable of and adheres to regulations governing allowable costs including retention of records. Expenditures identified as questioned or non-allowable per this audit should not be included in per diem budgets submitted to the county programs.

The BFO also recommends if OHYS applies to be re-licensed, adequate controls over purchasing procedures be implemented to promote prudent buying and compliance with established regulations.

The BFO further recommends that the OCFY and/or the OA provide the audit results to state and/or local law enforcement agencies and the IRS for further investigation, absent provision of documentation refuting this finding.

Finding No. 7 – Lack of Internal Controls

OHYS has not taken the steps necessary to ensure effective management and internal controls were implemented and followed. The lack of effective controls was the main cause for issues discussed in Findings 1 through 6. The lack of internal controls including absence of formal, written fiscal policies and procedures did not allow compliance with laws and regulations, and promote operating efficiency. Additionally, the lack of effective controls did not ensure the detection and prevention of errors, fraud and abuse.

The absence of qualified, experienced fiscal staff combined with a weak, ineffective board contributed to the failure to implement effective controls. The board weaknesses discussed per the observation and failure to comply with audit requirements, as discussed in Finding No. 3, may have prevented the control weaknesses from being identified sooner.

The operation of the program with either no bookkeeper at times or through three different bookkeepers employed for short time periods further compromised the implementation of controls and allowed maintenance of a fragmented and poorly managed accounting system.

Recommendations

The BFO recommends that if OHYS ever reapplies to be re-licensed, the OCYF ensure OHYS abides by the recommendations discussed in Findings No. 1 through 6.

Observation – Ineffective Board of Directors

The limited number of members, meetings conducted, absence of expertise in finance, legal, human resources, and education all contributed to the failure of OHYS. Although the By-Laws of OHYS state that the board of directors shall consist of seven persons, OHYS had only four members during fiscal years 2007-08 and 2008-09. The four members included OHYS' CEO and his wife, the former COO, and former Executive Administrator. According to the CEO, the former COO and Executive Administrator resigned from the board in August 2009. The former employees and board members are currently involved in operating two group homes in Lehigh and Monroe Counties.

The OHYS By-Laws require an annual meeting to be held and an annual financial report be presented each year. The review of board minutes identifies an annual meeting was not held for fiscal year 2008-09 and an annual financial report was not presented for the audit period. Additionally, the board did not meet and/or could not conduct business due to lack of a quorum from April 28, 2008 through the agency closing in September 2009. This was a critical period in which board leadership was crucial in making decisions on the continued viability of OHYS.

OHYS did not request a formal exit conference. In lieu of an exit conference, the recommendations and OHYS' response was discussed with the CEO/President. OHYS' written response provided on March 2, 2010 has been incorporated into the final report and is labeled Appendix B.

OHYS' response takes issue with certain audit issues. To assure clarity, the BFO feels it is necessary to include an Auditor's Commentary to address certain comments made in the OHYS March 2, 2010 response. The Auditor's Commentary is included as Appendix A to the report.

In accordance with our established procedures, an audit response matrix will be provided to your office. Once received, please complete the matrix within 60 days and email the Excel file to the DPW Audit Resolution Section at:

RA-pwauditresolution@state.pa.us

The response to each recommendation should indicate your office's concurrence or non-concurrence, the corrective action to be taken, the staff from your office responsible for the corrective action, the expected date that the corrective action will be completed, and any related comments.

Please contact Alexander Matolyak, Audit Resolution Section at (717) 783-7786 if you have any questions concerning this audit or if we can be of any further assistance in this matter.

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosures

c: Mr. Thomas Diehl
Mr. Edward Coleman

Open Hearts Youth Services'
Auditor's Commentary
Appendix A

Open Hearts Youth Services
Auditor's Commentary

The BFO's review of OHYS' response identified nine comments that warrant clarification in this auditor's commentary.

Response Page 1 – Page # 2 OF AUDIT REPORT – FINDING # 2

The response asserts OHYS received a copy of a "Federal IRS Tax Lien Reduction Notification" from the IRS, which was e-mailed to the BFO.

BFO Comment

The document provided to the BFO was not an IRS document. Instead, the document originated from [redacted] Tax Relief to notify OHYS that a potential settlement of $13,623 would be achieved through use of their services. The document is included as part of OHYS' response.

Response Page 1 – Page # 2 OF AUDIT REPORT – FINDING # 2

The response asserts OHYS would send a scanned copy of the accountant's business card.

BFO Comment

The BFO had not received this document from OHYS as of the report mailing date.

Response Page 7 – PAGE # 10 OF AUDIT REPORT - FINDING # 4

The response asserts the $11,715 check was cashed and deposited into the agency operating account.

BFO Comment

The BFO clarifies the $11,715 check was cashed at a check cashing facility on Friday, December 12, 2008 at 1:52 p.m. and only $11,129 was posted to an agency bank account on Monday, December 15, 2008 due to payment of a $586 check cashing fee.

Response Page 8 – PAGE # 10 OF AUDIT REPORT - FINDING # 4

The response asserts bank penalties were avoided by cashing a $4,950 check at a check cashing facility.

BFO Comment

The 5% check cashing fee resulted in a $248 charge. In addition, bank penalties would still be assessed upon the next deposit.

Response Page 8 – PAGE # 10 OF AUDIT REPORT - FINDING # 4

The response claims receipts were submitted to the BFO to support expenditure of the $4,950.

BFO Comment

The BFO reiterates, due to the accounting system not being maintained beyond July 2009 and lack of documentation for the employee payments, we could not determine if the cash was used as claimed or if other revenue sources besides the $4,950 was used to pay for the alleged expenses.

Response Page 8 – PAGE # 13 OF AUDIT REPORT - VEHICLE EXPENSE REPAIR MAINTENANCE

The response claims minor repair work was performed on the CEO's personal vehicle, one tire was purchased for a child worker and $3,300 was paid for repair work on the COO's personal vehicle.

BFO Comment

Invoices and bank statements indicate that OHYS paid repair and maintenance costs totaling $2,372 for the CEO's personal vehicle. Support also indicated two tires were purchased for a child worker and $332 was paid for repairs to the COO's personal vehicle.

Response Page 13 – PAGE # 16 OF AUDIT REPORT – FUNDRAISING COST

The response asserts that the BFO verified the CEO contributed $8,100 of personal funds to the fundraiser.

BFO Comment

The BFO did receive documentation supporting the expenditure of $8,100. However, we could not determine if the CEO's personal funds were utilized due to the accounting system not being maintained and lack of personal bank account documentation, such as cancelled checks, supporting the expenditure of personal funds.

Response Page 14 – PAGE # 17 OF AUDIT REPORT – HEALTH BENEFITS MAY HAVE CONTINUED AFTER EMPLOYEE TERMINATION

The response indicates a bookkeeper was also receiving health benefits after termination.

BFO Comment

Based on a very limited number of health care invoices available for review, a bookkeeper was not identified as receiving health benefits.

Open Hearts Youth Services
Response to the Draft Report
Appendix B

Mr. Kwame Kerr
President/CEO
Open Hearts Youth Services

Re: O.H.Y.S Audit Response

Mr. John Hoover, Audit Manager
Division of Audit and Review (DAR)
Bureau of Financial Operations (BFO)
Rm. 325 Scranton State Office Building
100 Lackawanna Avenue
Scranton, Pennsylvania 18503

Dear Mr. Hoover:

I am pleased to have the opportunity to explain to (DAR) Division of Audit Review just what happen at O.H.Y.S. in detail form. As I read through the report, I will stop and respond to any of the statements I find to be inaccurate and /or untrue and/or not told. I hope this will give you a better understanding of the events that took place at O.H.Y.S. in order for the audit report to be accurate and to the point. Thank you.

<u>Page # 2 OF AUDIT REPORT-FINDINGS # 2</u>

* The Internal Revenue Service (IRS) has sent a Federal IRS Tax Lien Reduction Notification, Settling at 13,623. I will E-mail you a scanned copy of the notification and phone # in order to verify this statement to be true.

* When directed, the former bookkeeper did not prepare the W-2, 1099 & 990 for the filing dates. All W-2s 1099 & 990 has been transferred to a Licensed accountant more than three months ago and has reported to me about the lack of work the former bookkeeper has not done. I will also send a scanned copy of his business card to you.

PAGE # 3 OF AUDIT REPORT- TOP OF PAGE HIGHLIGHT OF RECOMMENDATIONS

* O.H.Y.S. Has been in contact with the (IRS) Internal Revenue Service, and based on the reopening of O.H.Y.S, payments will be made back, totaling 13,623.

* There were four former Bookkeepers that worked for O.H.Y.S. The first two were hired by the former COO/Treasurer. Bookkeeper # 1 - Did not have the qualifications, but seem to know what she was doing. The former COO/Treasurer became comfortable with her work and allowed her to work from home, although, the CEO was not in agreement with that. There was nothing to support his feelings at that time. When a financial report was requested by the Board, nothing was produced from the Bookkeeper. It was now clear that the Bookkeeper did not do anything. The Bookkeeper was asked to come in and meet with both CEO and former COO/Treasurer. No call no show. This Bookkeeper was employed with O.H.Y.S. for about three to four months

* Bookkeeper # 2 was hired by the former COO/Treasurer. Again! No qualifications! but, she did have some experience in bookkeeping. This Bookkeeper was employed with O.H.Y.S. for a period of two and one half years. This Bookkeeper did what the former COO/Treasurer thought was right, although he also has no training in this field what so ever. Anyway, O.H.Y.S. went through financial audits, tax returns, payroll etc... with no problems during this period. When a board meeting was held, financial reports were presented, but not completed. The former COO/Treasurer always stated (in his own words) that he had to tweak the budget report. The CEO and one board member [redacted] always questioned the report. The former COO/Treasurer always reported that he will report back to the board within a week regarding changes in the budget. The former COO/Treasurer never reported back until the next board meeting, and the story was always the same. This raised suspicions with the CEO and board member [redacted] But at this time the CEO and board member [redacted] had no reason to disbelieve the former COO/Treasurer, although suspicions had increased. But, CEO and board member [redacted] still had no concrete evidence to support their suspicions. When the CEO questioned the bookkeeper about the budget, the bookkeeper claimed that she only puts on the budget report what she's told by the former COO/Treasurer. And sometimes messages were brought to her by the former Executive Administrator. The CEO does not believe the bookkeeper, and now suspects something wrong. "How could the bookkeeper not know what's going on?" This was the question that lingered for months. When CEO questioned the former COO/Treasurer about the bookkeeper and budget the former COO/Treasurer became angry and stated, "IF YOU WANT TO GET RID OF THE BOOKKEEPER, GO RIGHT AHEAD, AND THAT HE DIDN'T CARE!" After two to three months, of back and forth about the bookkeeper and the budget the former COO/Treasurer or the former Executive Administrator gave the bookkeeper permission to work from home, even after we all agreed to never allow a bookkeeper to work

from home after our first experience with bookkeeper # one. When the CEO was notified that the bookkeeper was given permission to work from home, I (CEO) immediately contacted the bookkeeper and informed her that she is not permitted to work from home or take any information out of the office. If so, she will be terminated immediately. I believe during this period the former COO/Treasurer began to speak out against the CEO to the bookkeeper and not enforcing the rule about not taking work home. Now the bookkeeper has grown a dislike towards the CEO. When the former COO/Treasurer and the former Executive Administrator was terminated February 2nd 2009 the bookkeeper remained working with O.H.Y.S. she should have been terminated as well, but I (CEO) gave her a chance. I hired a bookkeeper # 3 to overlook bookkeeper # 2. Bookkeeper # 3 found that 5,000 dollars was missing from the budget and also bookkeeper # 2 allowed O.H.Y.S. line of credit to mature. This action also caused O.H.Y.S to fall short on its payroll. When bookkeeper # 2 was questioned about these issues, she claimed she didn't know where the 5,000 dollars went and didn't know what happened to the line of credit for payroll. She began crying and stated she's sorry. Bookkeeper # 2 was suspended until further notice. After two days bookkeeper # 2 called and said she won't be returning to work. At this time, I now believe that bookkeeper # 2 was in direct contact with former COO/Treasurer in order to sabotage O.H.Y.S.

* Bookkeeper # 3 was highly qualified for the position and was willing to work for O.H.Y.S. But she was a fulltime auditor for a bank and was unable to give O.H.Y.S the attention it needed to straighten out all the errors and find all the pilfering that was going on. After six weeks of working with O.H.Y.S she suggested we contact a temp agency in an attempt to find another qualified fulltime bookkeeper to straighten out the existing problems O.H.Y.S obtained. All of the administrative staff agreed. After several interviews a qualified bookkeeper was found. Bookkeeper # 3 is now training bookkeeper # 4 for the position. After two and one half weeks of training bookkeeper # 4 was questionable to the CEO whether or not if she's able to handle the load of work that bookkeeper # 2 left behind.

* Bookkeeper # 4: The first couple days of work for this bookkeeper was filled with a lot of questions and answer sessions going over all the finances with the CEO alone. Specific instructions were given to her to keep all financial questions addressed directly to the CEO. This was because the rest of the administrative staff were fairly new and would not be able to address the financial concerns in detail based on the previous finance errors that had occurred. Some of the concerns for the bookkeeper were those pertaining to the food expenditure in the homes which had already been a concern to me, however, because of lack of evidence it was difficult to pinpoint the problem and find a solution. Various attempts to find a solution included having the group home supervisor shop and then another staff counterchecks the receipt against the purchases. Strict purchase budgets were implemented and still with these measures after a couple of days there would hardly be any evidence of food having been

purchased. Several residents from the program told an administrator that the childcare workers were taking foods home. This was brought to my attention and I relayed this message to bookkeeper # 4. Bookkeeper # 4 suggested that we match the groceries list to the receipt. But that still didn't work because when the receipt and shopping list matched on the amount of food that was brought a couple of days to a week later, food turned up missing. I was told by the residents and staff exactly who it was. I needed more evidence to act on. A lot of money was lost like this throughout the years; a cafeteria was needed for better control. After several visits with the counties, it was explained to bookkeeper # 4 what she had to do for the counties for the year of 2009. (The projections, the losses, and the actual's etc...) bookkeeper # 4 became overwhelmed with the work that was assigned to her. She started coming to work angry and began conversating with the director about the finances. Bookkeeper # 4 began asking for a raise and that this was too much work. Then she wanted to be a childcare worker and was constantly interacting with the residents which were causing serious problems because she disclosed office information causing residents to display intrusive behavior. It was explained to her that her present salary which was fourteen dollars an hour would be reduced to nine an hour if she rather do childcare work instead of bookkeeping. Bookkeeper # 4 became very angry with me and began to spiral out of control. At this time bookkeeper # 4 is gossiping within the office stepping out smoking periodically, discussing her marital problems with other employees and even at times became emotionally upset and began crying in the office for long periods at a time. Bookkeeper # 4 at some point realized that she was about to lose her job. When it came time for the payroll taxes to be completed, deadlines had to be met and auditors reviewing her work, bookkeeper # 4 quit knowing how she left work undone.

<u>Page # 4 OF AUDIT REPORT- HIGHLIGHTS OF RECCOMMENDATIONS</u>

* O.H.Y.S should formally contact the former COO/Treasurer and Executive Administrator to request return of the items and inform them that non-return of agency property may result in filling legal action against them.

* The former program director should return laptop and phone to O.H.Y.S in good working condition before receiving final salary payment. If not, the price of the laptop and phone will be taking out of the final salary payment

Page # 5 OF AUDIT REPORT- FINDING # 6 SUMMARY

* According to (DAR) Division of Audit and Review it was found that former COO/Treasurer and the former Executive Administrator paid 2,359 dollars to other non-profit organizations. **(THIS WAS NOT BOARD APPROVED, NOR AUTHORIZED BY THE CEO!)**

* The CEO terminated the former COO/Treasurer and Executive Administrator insurance coverage shortly after they were terminated. Somehow their names appear back on the policy. As soon as (DAR) Division of Audit Review made me aware that the names are back on, I contact the insurance company and terminated the entire policy.

* Unbeknown to the Board of Directors the COO/Treasurer and Executive Administrator had a hidden personal agenda of opening up a girls' home. This was apparent by their instance on not expanding in that area and their use of O.H.Y.S finances and name to solicit and fund other nonprofit organizations that would conflict with the normal runnings of O.H.Y.S.

Page # 5 OF AUDIT REPORT- FINDING # 7 SUMMARY

* As far as qualifications goes, three of the four board of directors possessed college degrees in different areas. The lack of control began when two of the former board of directors, COO/Treasurer and the Executive Administrator/Secretary decided that they would have their own agenda by trying to split the company by overtaking the board and organization.

* Not being weak or ineffective, the remaining two board of directors do to a lack of quorum were unable to remove both COO/Treasurer and Executive Administrator/Secretary from the board. An attorney was now obtained to assist in the matter. Shortly afterwards, both board members COO/Treasurer and Executive Administrator/Secretary were terminated from the organization and later gave their resignation from the board.

PAGE # 5 OF AUDIT REPORT - OBSERVATION SUMMARY

* During the fiscal years of 2006-2007 and 2007-2008 annual Board meetings were held however accurate annual financial reports were never presented. Though two of the Board members showed concern the COO/Treasurer's only response was that he would get it done and get it to the Board before the next Board meeting. This was never done.

* The reason for the annual board meeting not taking place in the fiscal year of 2008-09 was because O.H.Y.S board was under legal counseling in order to remove the

COO/Treasurer and Executive Administrator/Secretary. A bookkeeper was later hired to prepare the annual budget report.

* Evidence was finally obtained by the CEO that showed misappropriations of funds were used and under legal counsel, a Board meeting was scheduled at O.H.Y.S attorney's office to address this problem along with other issues. Both COO/Treasurer and the Executive Administrator failed to show. The COO/Treasurer claimed to have had back surgery at the time; however no proof was ever presented to the Board. The Executive administrator did not provide an explanation for her absents. Due to a lack of quorum, another meeting was again scheduled but both mentioned board members did not show or send an explanation.

<u>PAGE # 8 OF AUDIT REPORT-FIRST STATEMENT</u>

* The former COO/Treasurer withdrew $3,000 from the O.H.Y.S payroll account on July 7th 2008. **(THIS WAS NOT BOARD APPROVED, NOR AUTHORIZED BY THE CEO)** After further investigation, [redacted] was found to be the [redacted] of the [redacted]

<u>PAGE # 8 OF AUDIT REPORT- PARAGRAPHS # 2</u>

* There were some repairs that needed to be done at O.H.Y.S. But most repairs and paint jobs were completed by maintenance staff. O.H.Y.S had a work program for the residents. The former COO/Treasurer approved two residents to work with the contractor who was a personal friend of the former COO/Treasurer. After the work week, the contractor was paid for his services. Two residents became upset with the contractor for nonpayment for that same week. One of the residents brought this to my attention one and one half month later and also informed me of his working at another organization located in the Lehigh area. **(THIS WAS NOT BORAD APPROVED, NOR AUTHORIZED BY THE CEO)** I questioned the COO/Treasurer about possible work being done elsewhere and payments being made by O.H.Y.S. The COO/Treasurer denied all questions. When I questioned bookkeeper # 2, she also said no. I (CEO) believe that the payment of $1,400 and the $2,200 was split, so it couldn't be tracked. I also believe that bookkeeper # 2 was fully aware of where the proceeds were going. This kind of spending contributed to payroll not being met.

<u>PAGE # 9 OF AUDIT REPORT- FIRST TWO PARAGRAPHS</u>

* Response to paragraph # 1, FEDERAL IRS TAX LIEN REDUCTION NOTIFICATION was received in the mail for potential settlement of $13,623.

* Response to paragraph # 2, the former COO/Treasurer made a decision to stop paying payroll taxes **(THIS WAS NOT BORAD APPROVED, NOR AUTHORIZED BY THE CEO)** When this was brought to the CEO's attention, I (CEO) did not agree to any nonpayment of taxes. I

(CEO) instructed the COO/Treasurer and the bookkeeper # 2 to contact the IRS in order to make payment arrangements that we can afford. If you investigate this statement any further, you will see that payments were applied to this account.

* THE FEDERAL IRS TAX LIEN REDUCTION NOTIFICATION of $13,623 will be scanned and e-mailed to (DAR).

PAGE # 9 OF AUDIT REPORT - REQUIRED EMPLOYEE COMPANY TAX FORMS NOT FILED

* In this section on page nine, bookkeeper # 4 was hired to cover this area. Due to whatever issues, outside of her position at the job site affected her work performance. Therefore, she was unable to complete the job and later quit. This work load was transferred to a qualified accountant who can be contacted at your convenience. This accountant did inform me (CEO) that there will be penalties, but all will be reduced once he's done.

PAGE # 10 OF AUDIT REPORT- FINDINGS # 3

* O.H.Y.S hired a licensed accountant to prepare tax returns for 2006-07 and for 2007-08. After the tax returns were completed, both CEO and COO asked the accountant if it would be necessary for O.H.Y.S to hire an independent auditor to audit our books, and if so, "What's the estimated cost"? He replied "In the areas of $4,500 depending on who does the audit". This is why I (CEO) stated that we could not afford this amount in our early years of operation, due to low numbers of residents during our development stages.

PAGE # 10 OF AUDIT REPORT- FINDINGS # 4

* I (CEO) don't remember the date, but the check cashing facility called to inform me that the COO/Treasurer tried to cash a $12,000 check. I (CEO) contacted the COO/Treasurer in reference to this action. He stated that the check was picked up from Delaware County and needed to be cashed immediately to take care of some bills. The COO/Treasurer was unaware that the check cashing facility was not able to cash checks exceeding certain amounts without contacting me (CEO). The COO/Treasurer became very upset about the check cashing facility contacting me (CEO). I told him to stop yelling on the phone, and if I could be some of assistance, I would do so. After cashing the check, I asked the COO/Treasurer where this money has to go. The COO/Treasurer could not give me a rational explanation. I became uncomfortable with his reasoning and chose to deposit the funds into Open Hearts [redacted] bank account. The check was cashed and deposited to [redacted] bank Friday, December 12th 2008 and was posted to the account Monday, December 15th 2008. This statement can be proven to be true if it is needed to contact the check cashing facility.

* Due to over drafts in the [redacted] account I (CEO) did cash a $4,950 check at this same facility to avoid penalty cost that would've been taken out of this check. Two employees's had to be paid with this check and operating cost was also taken care of. I(CEO) brought receipts to (DAR) to support this statement.

PAGE # 11 OF AUDIT REPORT- FINDINGS # 5 ALSO RECOMMANDATIONS

* O.H.Y.S should formally contact the former COO/Treasurer and Executive Administrator to request return of the items and inform them that non-return of agency property may result in filling legal action against them.

* The former program director should return laptop and phone to O.H.Y.S in good working condition before receiving final salary payment. If not, the price of the laptop and phone will be taking out of the final salary payment

* ***PAGE # 12 OF AUDIT REPORT- VEHICLE EXSPENSE (INSURANCE)***

* Any leasing of a personal vehicle **(THIS WAS NOT BOARD APPROVED, NOR AUTHORIZED BY THE CEO)** It was brought to my (CEO) attention by (DAR) that the COO/Treasurer leased a personal vehicle under Open Hearts name. I(CEO) am sure that bookkeeper # 2 was knowledgeable of this transaction and did not inform me the (CEO)

PAGE # 13 OF AUDIT REPORT- VEHICLE EXPENSE REPAIR MAINTENANCE

* Minor repair work was performed on my (CEO) vehicle. Extensive work was performed on the Executive Administrator totaling $1,800 but a payment arrangement was agreed upon that $200 will be taking out of her bi-weekly check. One tire was purchased for a child workers car but I (CEO) did not authorize any repair work to be done on any child workers vehicle. Nor did I (CEO) authorize a $3,300 repair work on the vehicle that the COO/Treasurer was driving. When I (CEO) learned of this, I (CEO) instructed the COO/Treasurer to return the vehicle back to Open Hearts. The COO/Treasurer was stalling for time by trying to negotiate an item that didn't belong to him. In order to obtain the vehicle, I (CEO) had to repossess it. The vehicle was needed for the program. The time of this event took place after the COO/Treasurer was terminated from Open Hearts.

PAGE # 13 OF AUDIT REPORT- HIGH INTEREST LOANS

* There was one loan of $14,000 that was needed for payroll that I (CEO) signed to be paid back to the Executive Administrator's mother. I (CEO) also informed my attorney about

this, he stated that the purpose of the loan was stated and used just for that, this is okay. All other loans and transactions of this kind were done by the COO/Treasurer and the Executive Administrator. The Executive Administrator did not have the authority to approve or sign any documents concerning funds of Open Hearts. The COO/Treasurer did have the authority to do such but only when ordered by the board. The COO/Treasurer can only act on my behalf as stated in the bylaws, if I CEO/President is absent (meaning I CEO/President is in the hospital, and non responsive) or incapacity. (Meaning I CEO/President is in jail) Neither of the two applied. Therefore, the COO/Treasurer was not authorized as well.

<u>PAGE # 13 OF AUDIT REPORT - SECOND PARAGRAPH</u>

* The board and or CEO did not approve a loan totaling up to $9,139 to fund a vacation for 18 residents and 9 staff. The board only approved $8,000 out of its account for the Ocean City Maryland trip **(NOT A LOAN TO BE PAID BACK!)**

<u>PAGE # 14 OF AUDIT REPORT - DOUBLE PAYMENT IN VOICE</u>

* I (CEO) have been in contact with the vendor [redacted] and the vendor has agreed that they were paid twice and is willing to make payment.

<u>PAGE # 14 OF AUDIT REPORT - BANKS OVER DRAFTS FEES</u>

* The last sentence of this paragraph is not true because if the former bookkeeper monitored the account properly, meaning looking at the account in the morning, after lunch, and before the end of the day, you will clearly see all activity with the debit card. Because when a debit card is used, it immediately shows on the account in about 30 seconds after each transaction.

<u>PAGE # 15 OF AUDIT REPORT - INAPPROPIATE AND EXCESSIVE USE OF ANGENCY CELL PHONES</u>

<u>Paragraph # 1</u>

* Our cellular phone services were to local consumers. International calls and texting made by the Executive Administrator were not approved by the Board nor authorized by me the (CEO). This is one avenue that caused our phone bills to skyrocket.

<u>Paragraph # 2</u>

* After extensive calling to [redacted] and face to face conversations with [redacted] personnel, it was explained to me that because of the high number of phones and the amounts of the account, the phones were free and did not require to be turned in if they were not functioning correctly. We are talking about phone model Treo 7000 series. And [redacted] has stated that no refund is due. The insurance was there to insure that if a phone fails and can't be repaired, it will be replaced. I remember when my phone went down and I went to the mall to replace it. The staff member looked at my phone to see what was wrong with it. He couldn't find a problem and later returned the phone to me and said "Don't worry about the phone, we will send you another in the mail". A phone was sent to me next day, nothing was said from the staff member and nothing was written on the receipt of the new phone that I needed to return the old phone.

When the board approved to upgrade our phones from the model Treo 7000 series to the blackberry, a new contract from [redacted] was implemented and signed, all of our phones were working fine. After about eight weeks, the COO/Treasurer had a problem with his phone and needed to be replaced. At that time, I don't know if he returned his old phone. The new IT person discovered this from monitoring our phone bill. Not only did the IT person lowered the bill, he terminated service to the phones of the former COO/Treasurer and Executive Administrator. Both ex – employees had extremely high bills and continued to forward their bills to O.H.Y.S through [redacted] billing services. The IT person disputed the account and the bill was reversed back to the ex – employees.

<u>PAGE # 15 OF AUDIT REPORT - UNNECESSARY IMPROVEMENT OF LEASED FACILITY</u>

* O.H.Y.S did pay for upgrades for leased properties in order to improve the living conditions for the residents. After two years, the carpets needed to be replaced. Residents dropping hot irons on the rug leaving multiple burned marks also, walking in the program without wiping and/or removing their shoes before entering the home leaving trails leading to different areas in the house. There were also torn areas as well. The tiled floors in the bathrooms needed to be lifted, and a linoleum floor was put in place. There were some pluming issues caused by residents stuffing socks and other undergarments down the drains. Behind the facility was black topped to prevent any more mud tracking through the home and a basketball court along with a skateboard railing was installed for the residents to use at the facility. From time to time throughout the summer months, a volleyball kit was assembled and placed in the yard for the residents recreational needs. There were also over head park lights installed for night basketball games and to have better vision behind the homes at night especially over the stairwells in order to secure the safety of both staff and residents using the stairs at night. These upgrades were needed and were board approved.

PAGE # 15 OF AUDIT REPORT- VACATION IN OCEAN CITY MARYLAND

* When the former COO/Treasurer spoke about the idea of the Ocean City Maryland trip, he already spread that news around the organization before he presented it to the board meeting. Placing the board in a position where if they voted against it, the residents and staff would be highly upset with two of the four members of the board. The former COO/Treasurer's reason for this was because along with the rumor of the trip, he also stated to several staff and residents that he wanted to go there for his birthday. He also knew that the organization was in serious financial trouble. When the trip was presented to the board, the COO/Treasurer stated that a total of $8,000 would be needed for the trip. Everyone at the board meeting was in favor of any recreation and/or trip for the children. I (CEO) felt that the funds of $8,000 can be of better use if we spread out smaller trips throughout the summer. I also questioned, "What about the child that couldn't go on this trip", because of having to attend summer school. The COO/Treasurer responded with the child has to stay back from the trip. I (CEO) and [redacted] disagreed with the COO/Treasurer's decision and felt that leaving the child behind from the trip was sort of a punishment to the child. **Remember!** I (CEO) opened O.H.Y.S in order to help troubled children with their issues and times of needs. (In the draft, the COO/Treasurer stated that he made the decision to allow the trip based on the premise that children should have the opportunity to vacation at the beach regardless of the financial situation of the agency.) My question to you is "What about the child that was left behind"? I (CEO) and [redacted] felt regardless of how the COO/Treasurer felt, the child should have had a chance to enjoy a trip regardless of the agencies financial situation and/or having to go to summer school. Meaning, if smaller trips were scheduled, everyone could have enjoyed the summer better. Example: weekend # 1 a one day trip to the New York planetarium, weekend # 2 a bus ride to Florida and touring NASA, weekend # 3 visiting the New York City museum of natural history. Weekend # 4 any sporting events in or out of town. Weekend # 5 would be Sea World Aurora in Ohio. Weekend # 6 Adventure Aquarium in New Jersey. Weekend # 7, etc... All of which I just mentioned does not reach the amount of $8,000. As a matter of fact, a summer consists of two months. I (CEO) just gave you a prime example of a summer schedule that would have given all children a chance to enjoy the summer months and if any of the children had to attend summer school, it wouldn't have affect their schooling schedule.

When the trip was over, items that were purchased for the trip by O.H.Y.S such as nylon bags, coolers, etc... some of the nine staff members that attended this trip took theses items home. I (CEO)brought this to the COO/Treasurer's attention. He tried to recoup the items, but was unsuccessful. Also, all 18 clients' personal files were left behind. When I (CEO) questioned the COO/Treasurer about the files, he had no recollection of who could have left the files behind. The residents informed me that the trip was okay, but they stated that they didn't do too much. But play basketball, walking through the town, and board walking unsupervised. It was also reported that some staff members came back to the villa intoxicated, and a certain resident brought a girl to his room. (Where's the supervision!) It was also reported that the COO/Treasurer and a childcare worker were hardly seen. (Where was he when staff was not on the job?) I (CEO) just shook my head in disappointment with COO. I (CEO) know the COO sensed my disappointment but he didn't know at that time what I (CEO) was told.

Anyway, the board approved $8,000 for the Maryland trip. **THE BOARD DID NOT APPROVE AN ADDITIONAL BORROWING OF $9,139 AT 250% INTEREST RATE NOR WAS IT AUTHORIZED BY THE CEO**. The COO/Treasurer made this decision on his own. He informed me about this loan after taking the money out and paying it back. This caused major friction between the CEO and the COO/Treasurer. After further investigation, evidence was found that the COO/Treasurer withdrew the sum of $3,000 from the payroll account on July 7th, this definitely **(WAS NOT BOARD APPROVED, NOR AUTHORIZED BY THE CEO).** After more investigation, the date of July 7th was found to be the [redacted] of the [redacted] It appears that the COO/Treasurer used the residents and funds of O.H.Y.S to take a free trip to Ocean City Maryland for his own recreational desire.

I almost forgot to mention, that after the trip, there was no money to buy food for the program. I (CEO) came out of my pocket once again for the program. I (CEO)was reimbursed ten weeks later.

The Ocean City Maryland trip exhausted the rest of the summer activities; there were no outings to be scheduled. The residents were now complaining that they were board for the remainder of the summer. Residents who were granted walks in the township were now bringing trouble back to the program such as fights, mischief, and some legal problems with the township.

PAGE # 16 OF AUDIT REPORT - BASKETBALL CAMP

* The board did grant $8,950 to conduct our first annual basketball camp at a local university which was located in [redacted] PA. Because of this event being our first, the administrative staff all decided to have another organization to participate in order to take on half of the financial load. This organization was conducted by a personal friend of the COO/Treasurer. For the most part, the camp went very well. Some of the business arrangements I didn't care for, but certain conditions due to the contract from the university had to be allowed. Non residents of O.H.Y.S did not pay their entire bill and some said they will pay at a later date. **(NEVER HAPPENED.)** To avoid conflict with the university, O.H.Y.S paid all cost that wasn't paid by the second organization.

PAGE # 16 OF AUDIT REPORT – FUNDRAISING COST

* All of the Administrative staff liked the idea of and agreed about doing this fundraiser. Nobody was in the dark. We the Administrative staff knew that the startup cost would be high. I the (CEO) did not expect any handouts. So I gathered some investors in order to borrow funds. I also put in $4,200 of my tax returns and two of my payroll checks. I also provided (DAR) Division of Audit and Review receipts averaging to the amount of $8,100 that O.H.Y.S owed to me the (CEO). The $9,341 was paid from O.H.Y.S but $8,100 of that money was a reimbursement to me in which I decided to reinvest it into the fundraiser. The actual amount that O.H.Y.S paid for the fundraiser was $1,241. (DAR) Division of Audit and Review did verify this to be true.

Furthermore, nowhere in my tax exempt forms it is stated that this fundraiser was a non allowable cost. As a matter of fact, it doesn't state anything about a certain amount to be spent. I (CEO) did obtain legal advice on this matter.

We the Administrative staff expected a large turnout. We didn't see the need to explain our financial position, but, the interest of opening a boys and girls center was definitely discussed with all of the Administrative staff. Bookkeeper # 4 had a lot of input in the website especially in the window named about us explaining the purpose of the fundraiser.

PAGE # 16 OF AUDIT REPORT - PAYMENTS TO RELATED PARTIES OF THE FORMER COO AND FORMER EXECUTIVE ADMINISTRATOR

UNKNOWN ORANIZATION # 1

* The former COO/Treasurer paid a fuel vender $909 with O.H.Y.S funds to supply heating oil for another nonprofit organization in which he held an Executive Directors position unbeknown to O.H.Y.S board. **(THIS PAYMENT WAS NOT BORAD APPROVED, NOR AUTHORIZED BY THE CEO).** The founder of this entity brought this information to my attention along with other issues that were against Open Hearts. According to a written notarized statement, the founder if need be, would testify against the former COO/Treasurer about this matter.

UNKNOWN ORGANIZATION # 2

* The former COO/Treasurer paid $1,450 with O.H.Y.S funds to another nonprofit organization for blank checks with a different name other than Open Hearts. **(THIS PAYMENT WAS NOT BOARD APPROVED, NOR AUTHORIZED BY THE CEO)** The former COO/Treasurer and former Executive Administrator/Secretary both hold Executive management positions in this organization unknown to O.H.Y.S board. Reimbursement was not made to O.H.Y.S.

PAGE # 17 OF AUDIT REPORT - VIDEO GAME SYSTEMS AND ACCESSORIES

* The clinical director brought to my (CEO) attention that after counseling sessions with the residents, the most requested item was game systems for each house. The residents often complained about boredom between the hours of 8pm and bedtime which was 9:30pm. Staff members also stated that managing the residents during these hours did become a little hectic and at times needed help. The Clinical Director was comfortable with the resident's statements and later handed in a request form for these items. His request was approved. The game systems were later purchased for the residents. Five weeks later, two more systems were purchased because two was stolen from the program and had to be replaced. A form was created for staff to sign out a game system for their shift. If a system turned up missing, the staff member would take full responsibility and funds from their check would be used to replace the system. The problems of missing items came to an end.

PAGE # 17 OF AUDIT REPORT- HEALTH BENEFITS MAY HAVE CONTINUED AFTER EMPOLYEE TERMINATION.

* In this section of the audit report, it was stated that health care benefits were limited to the CEO, COO and Executive Administrator somehow; bookkeeper # 2 appeared on the benefits as well. **(THIS DECISION ABOUT BOOKKEEPER # 2 WAS NOT BROUGHT TO THE BOARD AND VOTED ON, NOR AUTHORIZED BY THE CEO).** After the former COO and former Executive Administrator were terminated, the CEO directed bookkeeper # 2 to remove these workers from the benefits. Six weeks later, bookkeeper # 2 was terminated, the CEO discovered that bookkeeper # 2 was also on the health care benefits list and I (CEO) later removed bookkeeper # 2 from the list. When (DAR) Division of Audit and Review came in to audit our records, they informed me (CEO) that the former COO and Executive Administrator were back on the benefits. In order to rectify this problem, I the (CEO) terminated the entire policy.

AUDIT RESPONSE # 1 – THE LEASES

* Both former COO/Treasurer and Executive Administrator took advantage of Open Hearts opportunity to renew the leases. When the time came for the leases to be renewed for O.H.Y.S, two of the four facilities were renewed by the Executive Administrator and COO/Treasurer in another organization's name in which they are part of the Executive management staff, with the intentions of stripping Open Hearts of its facilities. In the bylaws I the CEO/President is the only authorized person that can execute leases, mortgages, and other documents not unless I delegate the work to someone else. After I learned of this movement

by the COO/Treasurer and Executive Administrator, his banking privileges were revoked and both of their positions within the organization were now officially terminated.

I (CEO) made several attempts to contact the landlord owning property # 2 to see if a new lease had been signed. There was no response. I (CEO) am now wondering if the landlord is a part of this plan. When the landlord finally contacted me, I (CEO) asked him if he signed a new lease with the COO/Treasurer. He replied, "Yes", and stated that he signed a blank lease and gave it to the COO/Treasurer's friend who was an employee of Open Hearts. He also stated that at a later date, the lease was returned to him filled out. I (CEO) then asked, "What organization name appeared on the lease". He replied, "He didn't know because he was under the impression that the lease would be no different from what it was before". According to the landlord's story, it appears that he knew nothing about what was happening. I (CEO) asked him to look at the lease to check if he was still leasing to O.H.Y.S. He replied that he will call me back tomorrow. In our next conversation which was the following day, he stated to me (CEO) that he spoke to the COO/Treasurer and realized that he signed a lease for another organization. The confusion with the leases has now caused major problems for O.H.Y.S, because while trying to rectify the problem with the landlord, he legally could not extend the lease for Open Hearts when the COO/Treasurer had already leased the property in another organizations name. The landlord stated to me (CEO) that he didn't want any problems with me or the COO/Treasurer and that the issues should remain between us and that he only wanted the rent that was owed to him. When I (CEO) asked, "Can a month to month lease be issued until I can license another facility"? He replied, "No" and said, "He just want his rent money". I (CEO) said, "Okay but I need a receipt from you in the name of Open Hearts". He repeated, "Just get my money". The next day a resident called me explaining that all of the doors were locked when they came home from school. I (CEO) asked the resident, "Let me (CEO) talk to the staff that's supposed to be working. The staff member confirmed that all doors were locked. I (CEO) called the landlord to ask why this was done. He said he was in fear of not being paid. I (CEO) reminded him that I agreed to pay him and that this action was completely unnecessary he replied, "He'll be at the property in a few hours." I went up to the facility to meet with the kids and staff member. I gave the staff member some funds to take the residents out to eat while waiting for the landlord. After eating, the residents were taken to one of the other facilities until I met with the landlord. The landlord reached the facility five and one half hours later. After giving him the payment, he did give me a receipt. We agreed on a date that Open Hearts will be out. Before that date, the agency removed the residents. The home was now closed. To me (CEO), by jeopardizing the room and board of the residents, this was an act of sabotage for O.H.Y.S to be shut down.

Federal IRS Tax Lien Reduction Notification

FEDERAL IRS TAX LIEN REDUCTION NOTIFICATION

Issue Date: 11/27/2009

This notice is allowing you to reduce your tax lien(s) owed to the IRS by as much as 70%. We can help you prevent levies, garnishments, seizures, penalties, penalty interest and we can help you reduce your tax liability to a fraction of what you currently owe.

[redacted] TAX RELIEF

Our staff has **over 20 years of experience** in representing clients with the IRS. Don't let the stress of trying to get out from behind back taxes become too much.
[redacted] **Tax Relief** will help you resolve IRS debt.

- SETTLE YOUR IRS TAX DEBT FOR A FRACTION OF WHAT IS OWED
- REMOVE PENALTIES AND INTEREST CHARGES
- END WAGE GARNISHMENT AND LEVY
- SETTLE PAYROLL TAXES
- BECOME COMPLETELY TAX DEBT FREE

[redacted]

A) Reference ID: [redacted]	B) IRS Lien Reduction Contact No. [redacted]	C) Federal / State **Federal Tax Lien**
D) Lien Filling Date 11/18/2009	E) Estimated Lien Amount $45,410	F) Potential Settlement $13,623
G) Judgment Name Open Hearts	H) Judgment Address 300 Pennbrook Rd Stroudsburg, PA 18360-8129	I) Estimated Savings Up to 70% or $31,787

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