GRACE OUTREACH CENTER

FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

Sean M. Bruno
Certified Public Accountants

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Sean M. Bruno
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Grace Outreach Center
New Orleans, Louisiana

Report on the Financial Statements

I have audited the accompanying financial statements of the **Grace Outreach Center (the Center)** (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Auditor's Responsibility, Continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **the Center** as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of compensation, benefits and other payments on page 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated June 24, 2019 on my consideration of **the Center's** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **the Center's** internal control over financial reporting and compliance.

Sean M. Bruno

SEAN M. BRUNO
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

June 24, 2019

GRACE OUTREACH CENTER
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018

ASSETS

Cash and cash equivalents (NOTES 2 and 8)	$ 2,610
Receivables (NOTES 4 and 8)	155,284
Deposits (NOTE 8)	4,415
Fixed assets net of accumulated depreciation of $80,483 (NOTES 2 and 3)	43,638
Total assets	$ 205,947

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	$ 86,660
Accrued interest (NOTE 6)	9,912
Loans payable (NOTES 5, 6 and 8)	159,046
Payroll liabilities	18,514
Total liabilities	274,132
Net Assets (NOTE 2):	
Without donor restrictions	(68,185)
With donor restriction	-0-
Total net assets	(68,185)
Total liabilities and net assets	$ 205,947

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

GRACE OUTREACH CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Program service revenue	$ 1,235,854	$ -	$ 1,235,854
Patient fees	35,518	-	35,518
Other Income	15,714	-	15,714
Contributions	400	-	400
Total revenue and support	1,287,486	-	1,287,486
Expenses: (NOTES 2 & 13)			
Program services	822,914	-	822,914
Support services	368,698	-	368,698
Total expenses	1,191,612	-	1,191,612
Changes in net assets	95,874	-	95,874
Net Assets:			
Beginning of year	(164,059)	-	(164,059)
End of year	$ (68,185)	$ -	$ (68,185)

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

GRACE OUTREACH CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	$ 95,874
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	12,653
Increase in accounts receivables	(6,565)
Decrease in accounts payable	(56,114)
Increase in accrued interest payable	570
Decrease in short-term loans payable	(28,528)
Increase in payroll liabilities	18,514
Net cash provided by operating activities	36,404
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	(682)
Net cash used in investing activities	(682)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment on line of credit	(14,860)
Principal payments on notes payable	(18,575)
Net cash used in financing activities	(33,435)
Net increase in cash and cash equivalents	2,287
Cash and cash equivalents - January 1, 2018	323
Cash and cash equivalents - December 31, 2018	$ 2,610

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

NOTE 1 - ORGANIZATION

Grace Outreach Center is a non-profit organization, which serves as a faith-based intensive outpatient treatment and residential facility that provides a variety of services to adults with addictive disorders in the New Orleans area to assist them in maintaining a lifestyle free from the harmful effects of addiction.

Basis of Accounting

The financial statements of **the Center** have been prepared on the accrual basis of accounting under which revenues recorded when earned and expenses recorded when the liabilities incurred.

Basis Presentation

For the year ended December 31, 2018, **the Center** followed the requirements of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, in the presentation of its financial statements. The purpose of the FASB ASC 2016-04 is to improve the financial reporting of those entities. Among other provisions, this ASC reduces the number of classes of net assets from three to two, requiring the presentation of expenses in both natural and functional classifications, and requiring additional disclosures concerning liquidity and the availability of financial resources. This standard is effective for fiscal years beginning after December 31, 2017 and requires the use of the retrospective transition method. **The Center** adopted this standard for the year ended December 31, 2018 and its implementation is reflected in the financial statements.

A description of the two net asset categories is as follows:

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in it corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

NOTE 1 - ORGANIZATION, CONTINUED

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

At December 31, 2018, **the Center** did not have any net assets with donor restrictions.

Contributions

The Center accounts for contributions in accordance with FASB ASC Section 958-605, *Not-for-Profit Entities*, *Revenue Recognition*, accounting for contributions received and contributions made. In accordance with FASB ASC Section 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenues are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and represented in the Statement of Activities as net assets released from restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. See Note 13.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Cash and Cash Equivalents

Cash consist solely of demand deposits that are secured by federal deposit insurance up to $250,000. All highly liquid debt instruments purchased with an original maturity of three (3) months or less are considered to be cash equivalents for purposes of the Statement of Cash Flows. All deposits are secured by federal deposit insurance at December 31, 2018.

Fixed Assets

Fixed assets that exceed $1,000 are recorded at cost (or fair market value for donated assets) and are depreciated using the straight-line method over the estimated useful lives of the related assets, which vary from five to seven years.

Income Taxes

The Center is a tax exempt corporation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for federal or state income taxes have been recorded in the accompanying financial statements.

Should **the Center's** tax status be challenged in the future, the 2015, 2016, and 2017 tax returns are open for examination by the IRS.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Fair Values of Financial Institutions

Generally accepted accounting principles require disclosure of fair value information about financial instruments for which it is practicable to estimate fair value, whether or not recognized in the Statement of Financial Position. Cash and cash equivalents carrying amounts are reported in the Statement of Financial Position at approximate fair values because of the short maturities of those instruments.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the principles for recognizing revenue from contracts with customers and supersedes most current revenue recognition guidance. Under ASU 2014-09, which does not apply to financial instruments, the new accounting guidance is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for all entities by one year. **The Center** is evaluating the impact that implementation of this Update will have on **the Center's** financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU amendments include changes related to how certain equity investments are measured, how changes are recognized in the fair value of certain financial liabilities measured under the fair value option, and how financial assets and liabilities are disclosed and presented on **the Center's** financial statements. Additionally, the ASU will also require entities to present financial assets and financial liabilities separately, grouped by measurement category and form of financial asset in the statement of financial position or in the accompanying notes to the financial statements. Entities will also no longer have to disclose the methods and significant assumptions for financial instruments measured at amortized cost, but will be required to measure such instruments under the "exit price" notion for disclosure purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Recently Issued Accounting Pronouncements, Continued

The ASU is effective for annual periods beginning after December 15, 2018, with early adoption permitted only as of annual reporting periods beginning after December 15, 2017. **The Center** is evaluating the impact that implementation of this Update will have on **the Center's** financial statements.

In February 2016, the FASB issued ASU 2016-02, *Conforming Amendments Related to Leases (Topic 842).* This ASU amends the codification regarding leases in order to increase transparency and comparability. The ASU requires companies to recognize lease assets and liabilities on the statement of financial position and disclose key information about leasing arrangements. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. The ASU is effective for annual periods beginning after December 15, 2019 with early adoption permitted.

The Center is evaluating the impact that implementation of this Update will have on **the Center's** financial statements.

In August 2016, the FASB issued Accounting Standards Update (ASU) ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which significantly changes the presentation requirements for financial statements of not-for-profit entities. The amendments are intended to improve the guidance on net asset classification as well as the information presented in the financial statements and notes regarding liquidity, financial performance and cash flows for not-for-profit entities. Specifically, the ASU: 1) reduces complexity and improves understandability of net asset classifications, 2) improves transparency and utility of information regarding an entity's liquidity, 3) improves consistency in the type of information provided about expenses, and 4) improves consistency in the reporting of operating cash flows in the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2017. **The Center** has implemented ASU 2016-14 and has adjusted the presentation of the financial statements accordingly.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Recently Issued Accounting Pronouncements

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash.* The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in this Update are effective for nonpublic entities for annual periods beginning after December 15, 2018, with early adoption permitted. **The Center** does not expect the new guidance to have a material impact on **the Center's** financial statements.

NOTE 3 - FIXED ASSETS

Changes in the net book value of furniture and fixtures costs and vehicles during the year ended December 31, 2018 were as follows:

Description	Balance January 1, 2018	Additions/ Deletions	Balance December 31, 2018
Furniture and fixtures	$ 5,810	$ -0-	$ 5,810
Vehicles	117,629	682	118,311
Accumulated depreciation	(67,830)	(12,653)	(80,483)
Total	$ 55,609	$ (11,971)	$ 43,638

Depreciation expense totaled $12,653 for the year ended December 31, 2018.

NOTE 4 - RECEIVABLES

Receivables consist of funds due from the Department of Health and Hospitals - Office Behavioral Health - East Louisiana Mental Health totaling $155,284.

NOTE 5 - LOANS PAYABLE

At December 31, 2018, **the Center** had an unsecured loan with a non-profit organization with an outstanding principal balance of $3,942 maturing on May 15, 2020, during which interest continues to accrue using an interest rate of eight percent (8%) based on a year of 360 days.

The Center had a secured loan with a lending institution with an outstanding principal balance of $32,993 maturing September 9, 2020. The amount borrowed bears interest at the rate of 8.95% per annum.

The Center had a secured loan with a lending institution with an outstanding principal balance of $13,307 maturing September 9, 2020. The amount borrowed bears interest at a rate of 13.00% per annum.

Total loans payable related to lines of credit and lending institutions at December 31, 2018 totaled $50,242.

NOTE 6 - RELATED PARTY TRANSACTION

At December 31, 2018, **The Center** also has outstanding loans payable to current executives and a former executive in the amounts of $105,013 and $5,700 respectively. Funds borrowed from the former executive is payable on demand at an interest rate of ten percent (10%) per annum. The accrued interest for the year ended December 31, 2018 totaled $9,912.

Total related party loans payables at December 31, 2018 totaled $110,713.

NOTE 7 - CONTINGENCY AND COMMITTMENTS

The Center is the recipient of social service contract funds from various sources. These agreements are governed by various guidelines, regulations, and contractual agreements.

The administration of the programs and activities funded by these agreements are under the control and administration of **the Center** and are subject to audit and/or review by the applicable funding sources. Any programs compliance requirements found not to be properly conducted in accordance with the terms, conditions, and regulations of the funding source may be subject to recapture.

The Center has entered into contractual arrangements with certain individuals to provide operational and professional services. Such contracts vary in length of time depending on services.

NOTE 8 - FAIR VALUES OF FINANCIAL INSTRUMENTS

In accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* fair value is defined as the price that **the Center** would receive to sell an asset or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the asset or liability. ASC Topic 820 established a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to established classification of fair value measurements for disclosure purposes.

Various inputs are used in determining the value of **the Center's** assets or liabilities. The inputs are summarized in the three broad levels listed below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that **the Center** has the ability to access.

NOTE 8 – FAIR VALUES OF FINANCIAL INSTRUMENTS, CONTINUED

Level 2 - Inputs to the valuation methodology including (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in inactive markets; (3) inputs other than quoted prices that are observable for the asset or liability; and (4) inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Pricing inputs are unobservable for the investment and include situations where there is little, if any market activity.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. **The Center's** assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

All investments are considered to be Level 1 investments.

The following table summarizes the valuation of **the Center's** financial instruments measured at fair value by the above ASC Topic 820 fair value hierarchy levels as of December 31, 2018 are as follows:

	Carrying Value	Fair Value
Cash and cash equivalents	$ 2,610	$ 2,610
Receivables	155,284	155,284
Deposits	4,415	4,415
Loans payable	159,046	159,046

NOTE 9 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject **the Center** to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. At December 31, 2018, **the Center** had cash and cash equivalents in the bank totaling $13,430.

These deposits are stated at cost, which approximates market. Interest and non-interest bearing deposits are secured from risk by $250,000 of federal deposit insurance. As of December 31, 2018, **the Center** deposits were within the FDIC limits.

NOTE 10 - RISK MANAGEMENT

The Center is exposed to various risks of loss to torts, theft of, damage to and destruction of assets, for which **the Center** carries commercial liability insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE 11 - BOARD COMPENSATION

The Board of Directors of **the Center** is a voluntary board, therefore, no compensation was paid to any board member during the year ended December 31, 2018.

NOTE 12 - PERSONNEL SERVICES

Personnel services are provided to **the Center** by utilizing leased employees. **The Center** contracts with a 3rd party servicer, an employee leasing company to perform certain aspects of its human resource functions including hiring staff selected by **the Center** and providing contracted benefits to those employees. The leased employees provide personnel services to **the Center**, which are reimbursed in full to the employee leasing company by **the Center**.

NOTE 13 – FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses for the year ended December 31, 2018 were allocated as follows:

	Program Services	Support Services	Total
Leased employees	$ 419,337	$ 170,463	$ 589,800
Payroll	-	138,166	138,166
Rent	84,000	-	84,000
Insurance	67,639	-	67,639
Contract services	59,529	-	59,529
Utilities	53,637	-	53,637
Supplies	-	36,087	36,087
Meals and entertainment	36,025	-	36,025
Repairs and maintenance	15,122	-	15,122
Automobile repair and maintenance	14,284	-	14,284
Telephone and internet services	12,642	1,565	14,207
Depreciation expense	12,653	-	12,653
Accounting fees	10,900	-	10,900
Payroll taxes	-	10,848	10,848
Bank fees and interest	-	9,720	9,720
Computer and internet	8,166	-	8,166
Subcontractor and labor	7,324	-	7,324
Janitorial fees	7,167	-	7,167
Automobile fuel	4,136	-	4,136
Client related expenses	3,818	-	3,818
Other	2,017	-	2,017
Storage	1,993	-	1,993
Administrative support	1,577	-	1,577
Travel	948	-	948
License, permits and fees	-	927	927
Uniforms	-	792	792
Postage	-	130	130
	$ 822,914	$ 368,698	$ 1,191,612

NOTE 14 - SUBSEQUENT EVENTS

The Center is required to evaluate events or transactions that may occur after the Statement of Financial Position date for potential recognition or disclosure in the financial statements. **The Center** performed such an evaluation through June 24, 2019, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

GRACE OUTREACH CENTER
(A NON PROFIT CORPORATION)
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS
TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER (STATEMENT C)
FOR THE YEAR ENDED DECEMBER 31, 2018

Agency Head Name, Title: Pythian Noah, Executive Director

PURPOSE	AMOUNT
Salary	$ 114,755
Benefits-insurance	12,476
Benefits-retirements	755
Car allowance	-
Vehicle provided by government (enter amount reported on W-2)	-
Per diem	-
Reimbursements	122,445
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses (example: travel advances, etc.)	-
Special meals	1,530
Other	-

Sean M. Bruno
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Grace Outreach Center
New Orleans, Louisiana

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Grace Outreach Center (the Center)** (a nonprofit organization) which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated June 24, 2019.

Internal Control Over Financial Reporting

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

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Internal Control Over Financial Reporting, Continued

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose; however, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Sean M. Bruno

SEAN M. BRUNO
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

June 24, 2019

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

SECTION I SUMMARY OF INDEPENDENT AUDITORS' REPORTS

1. The independent auditors' report expresses an unmodified opinion on the financial statements of **the Center**.

2. No material weakness in internal control relating to the audit of the financial statements was reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Prepared in Accordance with *Government Auditing Standards.*

3. No instance of noncompliance material to the financial statements of **the Center** were reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Prepared in Accordance with *Government Auditing Standards.*

4. A management letter was issued for the year ended December 31, 2018.

SECTION II FINANCIAL STATEMENT FINDINGS

None noted.

SECTION II FINANCIAL STATEMENT FINDINGS, CONTINUED

Audit Finding Reference Number

2017-001 – Deficit Spending

Condition

I noted the results of activities ended in deficit spending for the fiscal year ended December 31, 2017. There was no documented evidence that a discussion of such results of activities was presented to those charged with governance nor was any discussion of the negative change discussed by the Board.

Recommendation

I recommend that monthly financial statements be prepared within thirty (30) days following the month-end, the year- end financials be prepared within sixty (60) days of year-end, and in each instance be discussed with a Finance Committee and Board of Directors. The minutes of the Finance Committee and Board of Directors meetings should reflect an indication of such discussions.

I recommend that **the Center** present no less than quarterly detailed Budget to Actual reports to the full Board of Directors or a Finance Committee to track expenses throughout the year.

Current Status

Resolved.

SECTION II FINANCIAL STATEMENT FINDINGS, CONTINUED

Audit Finding Reference Number

2017-002 – Untimely Submission of Audit Report

Condition

The December 31, 2017 audit report was not submitted within the prescribed time frame.

Recommendation

I recommend that management of **the Center** take the appropriate steps to ensure that the financial audit report is submitted within the prescribed deadlines.

Current Status

Resolved.

GRACE OUTREACH CENTER, INC.

Statewide Agreed-Upon Procedures (R.S. 24:513)
Report

FOR THE YEAR ENDED
DECEMBER 31, 2018

Sean M. Bruno
Certified Public Accountants

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors
Grace Outreach Center, Inc.
and the Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by **Grace Outreach Center, Inc.** (**GOC**) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2018 through December 31, 2018. **GOC's** management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated results are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):

   a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget

   b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

   c) ***Disbursements***, including processing, reviewing, and approving

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PROCEDURES AND FINDINGS, CONTINUED

d) ***Receipts/Collections***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

e) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

f) ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process

g) ***Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)***, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)

h) ***Travel and expense reimbursement***, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

i) ***Ethic***, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

j) ***Debt Service***, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Board or Finance Committee

2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

   a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

PROCEDURES AND FINDINGS, CONTINUED

b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. *Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*

c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

Bank Reconciliations

3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:

   a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);
   b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and
   c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Collections

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

PROCEDURES AND FINDINGS, CONTINUED

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
   a) Employees that are responsible for cash collections do not share cash drawers/registers.
   b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.
   c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
   d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.
6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.
7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:
   a) Observe that receipts are sequentially pre-numbered.
   b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
   c) Trace the deposit slip total to the actual deposit per the bank statement.
   d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than $100).
   e) Trace the actual deposit per the bank statement to the general ledger.

PROCEDURES AND FINDINGS, CONTINUED

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).
9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:
   a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
   b) At least two employees are involved in processing and approving payments to vendors.
   c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
   d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.
10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:
    a) Observe that the disbursement matched the related original invoice/billing statement.
    b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

PROCEDURES AND FINDINGS, CONTINUED

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

    a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.)]

    b) Observe that finance charges and late fees were not assessed on the selected statements.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

    a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

    b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

    c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

PROCEDURES AND FINDINGS, CONTINUED

d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

    a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

    b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

    c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

    d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

    a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

    b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

PROCEDURES AND FINDINGS, CONTINUED

c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulate leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain ethics documentation from management, and:

    a. Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

    b. Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

PROCEDURES AND FINDINGS, CONTINUED

Other

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.
24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

Findings:

In accordance with the Statewide Agreed-Upon Procedures, certain categories may be excluded from Year 2 testing if the entity did not have exceptions in Year 1. Therefore, the following categories were not tested this year:

- Collections
- Credit Cards
- Travel Reimbursements
- Contracts
- Ethics
- Debt

No exceptions were noted as a result of testing the agreed upon procedures listed above except:

Written Policies and Procedures

Results:

- The policies and procedures manual did not include amending budget procedures;
- The policies and procedures manual did not include procedures for processing, reviewing, and approving the time and attendance records for payroll/personnel;
- The policies and procedures manual did not address the specific contracting controls regarding (1) types of services requiring written contracts, (2) standard contract terms and conditions, (3) legal review, (4) approval process and (5) monitoring processes; and
- The policies and procedures manual did not include the dollar threshold by category for travel expenses.

INDEPENDENT ACCOUNTANT'S REPORT
ON
APPLYING AGREED-UPON PROCEDURES
(CONTINUED)

PROCEDURES AND FINDINGS, CONTINUED

Bank Reconciliations

Results:

- The bank reconciliations were generated electronically through the accounting system but no evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed the bank reconciliation.

Payroll and Personnel

Results

- No employee contractual agreements were maintained; and

- No employee daily attendance records were maintained.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of procedures performed on those C/C areas identified in the SAUPs, and the result of the procedures performed, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Sean M. Bruno

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CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

June 24, 2019

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June 26, 2019

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And

Sean M. Bruno CPAs
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Re: Management's Response to Statewide Agreed-Upon Procedures
Grace Outreach Center

Dear Sirs:

- **Written Policy and Procedures**
  Grace Outreach Center will review it's policies and procedures regarding the comments for each financial function and make the appropriate changes that will help improve our operations and internal controls in each area that is cost effective and within our budget.

- **Bank Reconciliations**
  Management agrees and will implement the proper procedures for Bank Reconciliations

- **Payroll and Personal**
  Our use of Payroll and Personal was for a six-month span and thereafter we discontinued the use of employees, however, in the future we will incorporate making sure there is a signed agreement and daily attendance record.

Sincerely,

Pythian Noah, Director
Grace Outreach Center