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Management Letter

To Management of
New York Disaster Interfaith Services

In planning and performing our audit of the financial statements of New York Disaster Interfaith Services ("NYDIS") as of and for the year ended December 31, 2016 in accordance with auditing standards generally accepted in the United States of America, we considered NYDIS's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NYDIS's internal control. Accordingly, we do not express an opinion on the effectiveness of NYDIS's internal control.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, as outlined below. 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.

The Organization provided management responses to the matters we raised. These responses were not subject to the auditing procedures applied in the audit and, accordingly, we express no opinion on them.

I -Significant Deficiencies

The following matters are considered to be significant deficiencies:

<u>Account Analysis – Accuracy of Books</u>
Performing routine analysis of material accounts is a strong procedure to help ensure accuracy of amounts recorded within the books. During the audit, we received several different versions of the trial balance, which indicates adjustments were made in March through June, which is three to six

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months after the year had ended. This is a strong indicator that the internal financial statements were not accurate on a timely basis.

We recommend that account analysis of material accounts be performed each month and adjusting entries be recorded so that timely and accurate financial statements can be produced and that the audit can proceed without delays.

Management Response: The fiscal team has taken steps during 2017 to address this. Many of the challenges were the result of issues related to the invoices with CNYCN. During 2017, the fiscal team has begun having weekly calls with CNYCN to discuss invoice issues and reconcile invoices.

Analysis of Government Grants and Restricted Contributions

When the earnings process for government grants and donor restricted contributions are dependent on the entity spending money in accordance with either a grant or donor's intent, it is critical to track the spending related to those grants so that the proper amount of revenue is either recorded or released from restriction.

The amount of revenue recorded in the books for government grants and restricted contributions did not agree to the amount of expenses recorded in the cost centers for those particular grants. Typically, entities will record all costs that relate to a specific grant or restricted contribution into the specific cost centers (referred to as a "class" within the QuickBooks system). We recommend that the Organization record all expenses that relate to a specific grant or restricted contribution in the specific cost center and reconcile the amount of expenses recorded to the claim submitted for reimbursement. This should minimize the amount of adjustments required to reflect proper revenue within the books and provide management with more up to date and accurate financial statements.

In cases where government grant revenue is based on the achievement of milestones, a tracking system should be developed, especially when portions of a contract are based on cost reimbursements and others are based on performance measures. During the audit, the finance team had trouble verifying the correct amount of income and needed assistance from the grantor to determine the correct amount of income.

Management Response: Same comment as above.

Lack of segregation of duties

Internal controls are best achieved when proper segregation of duties exists to prevent an employee from making a mistake or committing an irregularity that would not be detected by another employee in the normal course of their assigned functions. In organizations that have a limited number of personnel within the finance department, this can be challenging. The recommendation below offers practical suggestions on how a small organization can overcome the challenges of having limited staff available in the finance department.

During the year under audit, the chief financial and administration officer transmitted payroll information (number of hours and changes in the rate of pay) to the outside payroll company for processing and also received the payroll reports and checks back from the payroll company. This presents a risk that an unauthorized person could be added to the payroll or the rate of an existing employee could be increased without anyone within the organization detecting this error by performing their regularly assigned functions.

One control to minimize the risks outlined above would be to have someone other than the person that transmits the payroll have the responsibility to review the payroll reports and checks from the payroll company. If the chief financial and administration officer is the person to transmit the payroll, then the executive director and CEO or treasurer of the board could be the person to perform the review.

In addition, the payroll company prepares a report for each payroll period that outlines any changes (rate changes, additions and deletions of employees) from the last period. Another strong control would be to have the person who reviews the register also review this report each month to help identify any unauthorized changes. This can be documented by initialing the edit report to indicate it has been reviewed.

Management Response: Going forward Peter Gudaitis will be approving payroll before and after submission. Additionally, subsequent to year end, a staff accountant is reviewing the payroll as part of the process of entering it into Quickbooks. We are considering reversing rolls so that the payroll is submitted by the staff accountant and then reviewed by the chief finance and administration officer, so that a more senior person is performing the review.

II – Other matters

Personnel Files
We noted personnel files did not document each employee's rate of pay as required by New York State regulations. We recommend that personnel files for all employees contain this information.

Management Response: The organization has already corrected the personnel files. Offer and change letters as well as other appropriate official documentation of pay rates is now on file in all personnel folders.

Payroll Reconciliation
A strong procedure to ensure that all salaries get recorded in the books is to perform a reconciliation between the payroll on the general ledger and the Form 941 or NYS-45's that are filed with the government. These reconciliations were not performed during the year.

We recommend that on a quarterly basis when these forms are received that such a reconciliation be performed, and then at year end, a reconciliation should be performed for the entire year. Someone other than the preparer of the reconciliation should review it and mark their approval.

Management Response: While an informal reconciliation had been performed previously, we will now perform formal quarterly reconciliations.

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

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September 28, 2017