

SOCIAL SCIENCE SERVICES, INC.
REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2017

SOCIAL SCIENCE SERVICES, INC.

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June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Social Science Services, Inc.
Bloomington, CA

Report on the Financial Statements

We have audited the accompanying financial statements of the Social Science Services, Inc. (the "Organization") (a California corporation) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Organization'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 Organization's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of June 30, 2017 and the changes in its net assets and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of an Error

As described in Note 12 to the financial statements, certain expenses should have been reported in prior reporting periods. In addition, certain assets no longer in service but not fully depreciated should have been written off. The Organization has corrected the errors by recording the amounts to the proper periods and adjusting the amount previously reported in net assets. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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 Organization's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP
Glendora, California
April 25, 2018

FINANCIAL SECTION

SOCIAL SCIENCE SERVICE, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,735,237
Accounts receivable	502,264
Prepaid expenses	29,686
Total current assets	2,267,187

NON-CURRENT ASSETS

Restricted bond, reserve	224,610
Capital assets - net of accumulated depreciation	2,131,329
Total non-current assets	2,355,939

TOTAL ASSETS	\$ 4,623,126
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 125,555
Accrued expenses and other liabilities	225,933
Notes and bonds payable, current	176,061
Total current liabilities	527,549

NON-CURRENT LIABILITIES

Long-term liabilities	
Bonds and notes payable, net	606,843
Total non-current liabilities	606,843
Total liabilities	1,134,392

NET ASSETS

Unrestricted	3,465,236
Temporarily restricted	23,498
Total net assets	3,488,734

TOTAL LIABILITIES AND NET ASSETS	\$ 4,623,126
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See independent auditors' report and accompanying notes to the financial statements.

SOCIAL SCIENCE SERVICE, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Fiscal Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Total
REVENUE, SUPPORT, AND GAINS			
Public support			
State and local substance rehabilitation service grants	\$ 1,770,131	\$ -	\$ 1,770,131
Federal pass-through grants	2,460,634	-	2,460,634
Contributions	21,022	-	21,022
Total public support	4,251,787	-	4,251,787
Revenues and gains			
Private pay	34,379	208,316	242,695
Miscellaneous	152,445	-	152,445
Net assets released	184,818	(184,818)	-
Total revenues	371,642	23,498	395,140
Total public support, revenues and gains	4,623,429	23,498	4,646,927
EXPENSES AND LOSSES			
Program services expense	3,649,404	-	3,649,404
Management and general	743,275	-	743,275
Total expense	4,392,679	-	4,392,679
CHANGE IN NET ASSETS	230,750	23,498	254,248
Net Assets - Beginning of year	3,866,892	100,935	3,967,827
Restatement (Note 12)	(632,406)	(100,935)	(733,341)
Net Assets - Beginning of year, restated	3,234,486	-	3,234,486
NET ASSETS - END OF YEAR	\$ 3,465,236	\$ 23,498	\$ 3,488,734

See independent auditors' report and accompanying notes to the financial statements.

SOCIAL SCIENCE SERVICES, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2017**

	Program Services						Total	Management and General	Total
	Residential	Withdrawal Management	Sober Living	Maple House	DUI Program	Outpatient			
Salaries	\$ 1,219,129	\$ 193,244	\$ 12,070	\$ 179,747	\$ 92,110	\$ 139,544	\$ 1,835,844	\$ 213,342	\$ 2,049,186
Payroll Taxes	342,032	54,215	3,386	50,429	7,047	10,691	467,800	59,854	527,654
Employee Benefits	183,904	29,151	1,821	27,115	12,344	17,698	272,033	31,520	303,553
Contract Labor	27,600	41,600		94,649	11,691	2,600	178,140	96,990	275,130
Legal and Professional Fees	-	-	-	-	1,070	-	1,070	22,815	23,885
Supplies	3,497	513	-	353	179	-	4,542	38,260	42,802
Rent	-	-	-	-	912	-	912	21,898	22,810
Telephone	-	-	-	-	2,198	-	2,198	51,536	53,734
Travel & Seminars	7,545	-	-	1,457		183	9,185	13,124	22,309
Insurance	-	-	-	-		-	-	54,951	54,951
Medical Exams and Drugs	11,998	9,608	-	166	94	2,160	24,026		24,026
Food	251,016	36,847	13,817	25,332		-	327,012		327,012
Program Fees	1,653	-	-	-	9,095	-	10,748		10,748
Administration	-	-	-	-	1,133	-	1,133	29,011	30,144
Maintenance & Occupancy	262,168	5,823	7,363	22,412	15,707	3,682	317,155	1,474	318,629
Dues and Subscriptions	900	-	-	-	638	-	1,538	6,017	7,555
Advertising	-	-	-	-	-	-	-	5,959	5,959
Laundry	11,318	-	-	-	-	-	11,318		11,318
Client Activities	29,746	2,956	359	10,648	-	2,631	46,340	22,188	68,528
Total Expenses by Function	<u>2,352,506</u>	<u>373,957</u>	<u>38,816</u>	<u>412,308</u>	<u>154,218</u>	<u>179,189</u>	<u>3,510,994</u>	<u>668,939</u>	<u>4,179,933</u>
Interest	19,450	2,855	1,071	1,963	1,227	1,227	27,793	-	27,793
Depreciation	71,797	10,539	3,952	7,245	8,542	8,542	110,617	-	110,617
Amortization	-	-	-	-	-	-	-	74,336	74,336
Total Expenses	<u>\$ 2,443,753</u>	<u>\$ 387,351</u>	<u>\$ 43,839</u>	<u>\$ 421,516</u>	<u>\$ 163,987</u>	<u>\$ 188,958</u>	<u>\$ 3,649,404</u>	<u>\$ 743,275</u>	<u>\$ 4,392,679</u>

See independent auditors' report and accompanying notes to the financial statements.

SOCIAL SCIENCE SERVICES, INC.

**STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customer and users	\$ 4,526,768
Payments to employees	(2,853,189)
Payments to vendors and suppliers	<u>(1,258,365)</u>
Net cash provided by operating activities	<u>415,214</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on long-term debt	<u>(253,608)</u>
Net cash used by financing activities	<u>(253,608)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of capital assets	<u>(120,257)</u>
Net cash used by investing activities	<u>(120,257)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents - Beginning of Year	<u>1,693,888</u>
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CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,735,237</u></u>
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**RECONCILIATION OF CHANGE IN NET ASSETS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Change in net assets	<u>\$ 254,248</u>
Adjustments to reconcile change in net assets to cash provided by operations:	
Depreciation and amortization	184,953
Adjustments to reconcile change in net assets to net cash Provided by operating activities:	
(Increase) Decrease in assets:	
Accounts receivable	(120,159)
Prepays	(29,686)
Increase(Decrease) in liabilities:	
Accounts payable	98,654
Accrued payroll	<u>27,204</u>
Total adjustments	<u>160,966</u>
Net cash provided by operating activities	<u><u>\$ 415,214</u></u>

See independent auditors' report and accompanying notes to the financial statements.

SOCIAL SCIENCE SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Social Science Services, Inc. (the "Organization"), is a not-for-profit corporation formed in 1973 that provides drug and alcohol recovery programs.

Riverside Drug & Alcohol Treatment - Clients are referred by the Riverside County Drug Agency. Through contractual agreement, spaces are provided for a 7 to 60 day stay. All clients receive medical evaluation, and the treatments addresses problems with addiction through group processing, education and one-on-one sessions with counselors

San Bernardino Drug & Alcohol Treatment and Dual Diagnosis Program - Clients are referred by various agencies. Through contractual agreement, spaces are provided for a 7 day to 6 month stay. All clients receive medical evaluation, and the treatments addresses problems with addiction through group processing, education and one-on-one sessions with counselors.

Private Pay - Through insurance and cash payment, clients are able to receive drug and alcohol treatment. Fees are determined by per diem costs for services such as medical, counseling, housing and meals.

Drinking Driver Program- The fee for service program is provided to educate and counsel men and women who have been referred by the courts as a result of police arrest for driving under the influence of alcohol and or drugs.

Basis of Preparation

The following is a summary of the significant accounting policies of Social Science Services, Inc., and is presented to assist in understanding the financial statements. The financial statements and integral notes are representations of the members of the Board of Directors, who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

SOCIAL SCIENCE SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional Allocation of Expenses

The costs of providing various programs have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and activities.

Cash and Cash Equivalents

Cash and cash equivalents are considered all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted for long-term purposes are excluded from this definition.

Accounts Receivable

Accounts receivable consist primarily of noninterest-bearing amounts due for services. Accounts receivable are written off when deemed uncollectable using the direct write off method. Management believes the losses recognized under the direct write off method approximate the amount of the estimated reserve that would be assessed using the allowance method.

Property and Equipment

Property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation are capitalized. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from five to fifty years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Bond Issue Costs

Deferred bond offering costs are amortized using the effective interest rate method over the life of the bonds. Annual amortization expense at June 30, 2017 was \$15,828. In addition, during fiscal year 2017, \$58,508 of unamortized costs associated with previously refunded debt were recognized.

SOCIAL SCIENCE SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations, including the accumulation of certain grants, contributions, gifts, bequests and related income which are available for general purposes.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or our actions and/or the passage of time. Temporarily restricted net assets are excess residual receipts from the Drinking Driver Program and are required to be separately stated by jurisdiction as a component of temporarily restricted net assets until the agency designates a mandated use of the funds. Program receipts are considered restricted because they must be used only to provide court mandated education until such time as the agency mandates an expenditure from the residual balance.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by our actions. The Organization currently does not have net assets meeting this definition.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received from agencies who must give permission for specified uses of funds are considered to be restricted. When the restriction expires or the agency directs funds to be expended, the restriction is reclassified as “Net Assets Released from Restrictions.”

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results may differ from those estimates.

SOCIAL SCIENCE SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

Social Science Services, Inc. is a not for profit organization that is tax exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23401 of the California tax code classified by the Internal Revenue Service as other than a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

The Organization has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Organizations continued qualification as a tax-exempt organization and whether there are unrelated business income activities conducted that would be taxable. The Organization does not engage in any unrelated trade or business, as such management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore no disclosures of uncertain income tax positions are required. The Organization files information returns in the U.S. federal jurisdiction and the state of California. The statute of limitations for federal and state purposes is generally three and four years, respectively.

Subsequent Events

Social Science Services, Inc. has evaluated subsequent events through April 25, 2018 which is the date these financial statements were available to be issued. There were no subsequent events that would require adjustments to or disclosure in the financial statements except as already disclosed in these financial statements.

NOTE 2: OUTSIDE SERVICES

The Board of Directors entered into a service arrangement with ESG Republic in Bakersfield, CA to lease employees. This includes the payroll services, including payroll, employer benefits, payroll taxes, compliance with the law, handbooks and payroll administration. The contract began on March 31, 2006, renewing every year, and terminated on December 31, 2017.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable for the year ended June 30, 2017 consisted of \$502,264 due from San Bernardino County.

SOCIAL SCIENCE SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 4: RESTRICTED DEPOSITS WITH BOND TRUSTEE

Restricted deposits with bond trustee for the year ended June 30, 2017, was as follows:

Purchase payment account: These funds are used for the payment of principal and interest on bond indebtedness.	\$ 114,585
Interest account: These funds are used for the payment of principal and interest on bond indebtedness.	4,257
Reserve account: These funds are held in trust as a reserve for purchase payments.	<u>105,768</u>
Total	<u>\$ 224,610</u>

NOTE 5: FIXED ASSETS

Fixed assets for the year ended June 30, 2017, was as follows:

Land	\$ 1,084,900
Buildings	1,325,000
Improvements	667,019
Fixtures & equipment	265,526
Vehicles	<u>140,410</u>
Total	3,482,855
Less accumulated depreciation	<u>1,351,526</u>
Total fixed assets	<u>\$ 2,131,329</u>

Depreciation for the fiscal year ended June 30, 2017 was \$110,617.

NOTE 6: ACCRUED EXPENSES

Accrued expense for the year ended June 30, 2017, was as follows:

Vacation	\$ 118,184
Payroll	97,749
Other	<u>10,000</u>
Total	<u>\$ 225,933</u>

SOCIAL SCIENCE SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 7: DEBT

Notes Payable

Notes payable secured by building and land located adjacent to the operating facility in Bloomington, CA. The note is payable in payments of \$4,986 per month including interest at 3%. The note is due March 2023. The balance due on the notes at June 30, 2017 is \$315,635.

Bonds Payable

In October 2011, the Organization issued serial bonds. A portion of the bonds are retired annually. The trustee of the bond issue is US Bank. The outstanding bonds have interest rates ranging from 0.9% to 3.7%. The balance due on the bonds at June 30, 2017 was \$520,000.

The credit facility requires the Organization to maintain certain levels of cash on hand, capital replacement fund and a minimum debt service ratio on a quarterly basis. The Organization was in compliance in each of the areas as of June 30, 2017.

Future Maturity of Debt

Future maturity of debt for the year ended June 30, was as follows:

	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
2018	\$ 125,000	\$ 51,061	\$ 176,061
2019	130,000	38,172	168,172
2020	130,000	38,172	168,172
2021	135,000	38,172	173,172
2022	-	38,172	38,172
Thereafter	-	111,886	111,886
Total	<u>\$ 520,000</u>	<u>\$ 315,635</u>	<u>\$ 835,635</u>
Less unamortized issuance cost	<u>(52,731)</u>	<u>-</u>	<u>(52,731)</u>
Total	<u>\$ 467,269</u>	<u>\$ 315,635</u>	<u>\$ 782,904</u>

NOTE 8: COMMITMENTS

The Organization has no future obligations for post-retirement health care benefits or employee pension plans.

SOCIAL SCIENCE SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 9: NET ASSETS

Net assets for the year ended June 30, 2017, was as follows:

Unrestricted net assets are as follows:

Undesignated	\$ 3,465,236
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Temporarily restricted net assets are available for
the following program:

Drinking Driver Program	\$ 23,498
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NOTE 10: CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to credit risk consist primarily of third party insurance accounts receivable. Management believes that it has adequately provided for any potential uncollectible accounts.

At June 30, 2017, the contracts with the County of San Bernardino amounted to 77.54% of all revenue. If the county budget should change, loss of this revenue could severely impair the Organization's ability to sustain operations.

At June 30, 2017, the contracts with the County of Riverside Bernardino amounted to 22.46% of all revenue. If the county budget should change, loss of this revenue could severely impair the Organization's ability to sustain operations.

NOTE 11: CONTINGENCIES

The Organization has received state and federal funds for specific purposes, which are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material or has been accrued in the financial statements.

NOTE 12: PRIOR YEAR RESTATEMENT

The Organization reports its activities in accordance with US GAAP. As such, revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, irrespective of cash flow. In addition, US GAAP requires that the Organization evaluate its long-lived assets for impairment and write off assets that become worthless or are no longer in service.

SOCIAL SCIENCE SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 12: PRIOR YEAR RESTATEMENT

The following adjustments were recorded to beginning net assets to properly report the revenues and expenses of the Organization for the fiscal year ended June 30, 2017.

Net Assets - Beginning of Year	\$ 3,967,827
Adjustments:	
Write off fixed assets no longer in use	(517,771)
Record employee compensated absences	(121,648)
Adjust bad debt expense	<u>(93,922)</u>
Prior year restatement	<u>(733,341)</u>
Net Assets - Beginning of Year as restated	<u>\$ 3,234,486</u>

In addition, temporarily restricted net assets were adjusted for \$100,935 to reflect amounts previously released but not recorded as such related to the DUI program.

OTHER INDEPENDENT AUDITORS' REPORT



**INDEPENDENT AUDITORS' 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***

Board of Directors
Social Science Services, Inc.
Bloomington, CA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Social Science Services, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2018.

Internal Control Over Financial Reporting

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

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 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.

**INDEPENDENT AUDITORS' 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***

Our 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified deficiencies in internal control, as described in the accompanying schedule of findings and responses that we consider to be material weaknesses, see findings 2017-001 and 2017-002.

Compliance and Other Matters

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

Organization' Response to the Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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.



CliftonLarsonAllen LLP
Glendora, California
April 25, 2018

FINDINGS AND RESPONSES

SOCIAL SCIENCE SERVICES, INC.

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2017

NOTE: The finding and recommendations listed below include details about the criteria or specific requirements, the condition, the effect and the cause. The Organization's response that follows the finding is the Organization's corrective action plan.

FINDINGS

2017-001 Reconciliation and Financial Close Process

Finding: Our audit procedures revealed the lack of a systematic method to ensure complete monthly closing procedures are taking place and reconciliations being performed, in particular related to the June 30, 2016 fiscal-year end and a portion of the June 30, 2017 fiscal year-end. A lack of specific closing procedures over multiple accounts that are not regularly reconciled may ultimately cause significant errors in the financial records and statements, as well as allow for possible irregularities, including fraud, to exist and continue without notice. As a result, the beginning net assets as of June 30, 2017 were restated as described in note 12. We noted the following deficiencies:

- Journal entries for prior year close and audit adjustments were not recorded which caused the financial records and general ledger balances to not reconcile to the 2015-16 audited financial statements. When inquiring with the predecessor auditor, multiple adjustments were identified of which only a few were communicated to and booked internally by the Organization. As a result, the Organization's trial balance did not agree to its audited financial statements.
- There were no formal procedures for monthly close activities or regular account reconciliations (other than bank reconciliations which are not reviewed). This resulted in multiple errors identified in the accounts and necessitated restatements as described in Note 12.
- The detailed fixed asset listing was not reconciled to the general ledger. In addition, the fixed asset listing had not been evaluated for fully depreciated assets which were no longer in use and should be removed from the fixed asset detail. The fixed asset listing had not been updated over the past few years to reflect additions and deletions. This resulted in a material overstatement of the gross capital equipment as reported in the financial statements in previous years. We also noted that the Organization does not have a capitalization policy; and as a result, there was a lack of consistency in asset classes being capitalized and depreciated on a similar basis.

Recommendation: Establish a system of consistent monthly reconciliations and closing procedures in order to provide more accurate financial statements. We strongly recommend the Organization establish more effective review and reconciliation policies and procedures as a customary part of the accounting process. This would involve monthly reconciliations of all

SOCIAL SCIENCE SERVICES, INC.

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2017

FINDINGS

accounts, making adjustments throughout the year that have typically been made at year-end only, and performing more frequent reviews of the general ledger throughout the year.

Organization's Response:

While understanding some of the shortcomings discussed in the Schedule of Findings, it is important to note that many steps have been undertaken to address issues in the subsequent time from the timeframe of the scope of this audit. Prior to the June 30, 2017 year-end period, Social Science Services, Inc., had engaged an outside audit firm to perform yearly audit functions and provide guidance in the preparation of periodic financial statements. Clearly these are two different functions and there should be separation of these duties for avoidance of conflicts of interest.

During the fiscal year July 1, 2016 – June 30, 2017 a new CEO, Jamie Lamb began her employment at Social Science Services, Inc. She noted a need for more financial expertise and guidance and in May of 2017, she engaged an outside Finance Professional, Rick White, to act as CFO on a part-time basis. At this time the prior Audit Firm resigned and the process of addressing some of the weaknesses in Social Services' financial structure began.

- The Finance Director made no journal entries unless provided by the previous Audit Firm. During the audit for 2016-17 it was revealed that the Finance Director had not been given the proper entries by the audit firm resulting in discrepancies.
- Beginning in the fiscal year 2017-18 there are to be monthly closings with financial statements, bank statements and accompanying schedules. All schedules will tie to the statements and will be reviewed and approved by the CFO.
- The detailed fixed asset listing was being addressed before the current audit began. Most of the issues in this area go back to prior years when there needed to be systematic record keeping. This was brought to the attention of the current Audit Firm before there audit began.

2017-002 Key Internal Controls

Finding: Our audit procedures included reviewing key transaction cycles and documenting internal controls and procedures over cash receipts, cash disbursements and payroll, including sampling transactions of each. These procedures revealed a lack of proper controls and segregation of duties that may ultimately cause significant error in internal controls due to lack of proper review and oversight. We noted the following deficiencies:

SOCIAL SCIENCE SERVICES, INC.

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2017

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Controls over Payroll

Observation: During our review of payroll controls, we noted 1 of 5 employees selected for testing whose time sheet stated they worked 35.25 hours, yet the payroll register listed they had worked 83.25 hours, for a variance of 48 hours. Per discussion with the Administrative Assistant who oversees payroll, she explained that the employee's manager had asked for the additional hours to be added to the employee's timecard after the timecard was finalized; yet there was no explanation obtained or support retained for these additional hours.

Recommendation: To prevent duplicate or missing hours worked, employees should enter all time worked onto their time card for hours worked which should be verified and approved by the supervisor. The payroll register hours worked should match the employees' time cards to provide support for wages paid. Further, all adjustments to payroll disbursements should have a clear audit trail with substantiation for the changes and proper authorization. Lastly, time cards should be fully completed and approved by the employees' supervisor/manager. Any discrepancies in hours should be fully documented and appropriately supported prior to an employee being paid.

Observation: During our review of the payroll internal control questionnaire, we noted that there is no formal control to ensure that terminated employees are no longer being paid post termination.

Recommendation: To prevent employees from being paid subsequent to termination, someone other than the person who processes payroll should verify that terminated employees are no longer being paid to avoid possible collusion and inappropriate continuation of pay rate post termination.

Observation: During our review of the payroll internal control questionnaire, we noted that the Administrative Assistant has access to signed checks, can authorize a payment transaction and has access to make payroll changes. In theory, the Administrative Assistant could set up a false employee and keep the check for herself.

Recommendation: To prevent unauthorized payments to "ghost" employees, someone other than the Administrative Assistant should be performing a detailed review of payroll processing to ensure that each payroll is processed, recorded and appropriate. Such review should be evidenced by an initial and date of the reviewer to avoid possible collusion and inappropriate pay rates being processed.

SOCIAL SCIENCE SERVICES, INC.

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2017

FINDINGS

Segregation of Duties – Cash Receipts and Bank Reconciliation

Observation: We noted that there was a lack of segregation of duties within the cash receipts process. The Finance Director opens the mail, enters the cash receipts, prepares deposits and takes the deposits to the bank. Bank reconciliations are also prepared by the Finance Director. There are not any compensating controls as completed bank reconciliations are not reviewed or approved by another employee independent of the receipting process.

Recommendations: Although the small size of the Organization's staff limits the extent of segregation of duties, separating certain closely related functions in the cash receipts system of the Organization will result in stronger internal control over cash receipts.

Check Disbursements

Observation: During our walkthrough of cash disbursement procedures, we noted 4 of 5 transactions selected for testing in which there was no documentation of the approval for the purchases and invoices for goods/services.

Recommendation: Documentation of approval should be visible for all purchases of goods and services. All purchases and invoices for goods and services should have a clear form of approval and audit trail from the initiation of order to final processing of invoice and receipt of goods or services.

Journal Entry Support and Review

Observation: Journal entry support, including the journal entry itself, is not maintained. As a result, journal entries did not show evidence of review by someone other than the preparer. The lack of maintaining journal entries, the related support; as well lack of review over journal entries allows for potential errors or irregularities, including fraud, to occur without detection

Recommendation: Documentation to support journal entries should be maintained, including evidence of review by an individual not responsible for creating or recording the journal entries.

SOCIAL SCIENCE SERVICES, INC.

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2017

FINDINGS

Organization's Response:

When working with smaller institutions, Internal Controls is an area that always arises because the size of the financial staff generally limits the amount of separation of duties that can be obtained. Typically it becomes important to have policies and systems in place making it difficult for one person to commit and fraudulent activity. At this time, employees use an electronic time and attendance system and each department manager reviews and approves the hours of the employees in their department. This is forwarded to the payroll administrator.

A review of the payroll may be instituted but the effectiveness of this is suspect given the number of employees and the number of hours worked. The overall reliance will have to remain with the hiring of trustworthy, capable employees, spot checks and vigilance by management.

Please note above point as bank reconciliations will be reviewed monthly by the CFO.

Journal entries will be kept with the monthly closing records and properly reviewed.

SOCIAL SCIENCE SERVICES, INC.
STATUS OF PRIOR YEAR FINDINGS
June 30, 2017

There were no findings related to the basic financial statements for the year ended June 30, 2016.

SOCIAL SCIENCE SERVICES, INC.

REPORT ON SINGLE AUDIT

June 30, 2017

SOCIAL SCIENCE SERVICES, INC.

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**INDEPENDENT AUDITORS' 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***

Board of Directors
Social Science Services, Inc.
Bloomington, CA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Social Science Services, Inc. (the Organization), which comprise the statement of financial position as June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2018.

Internal Control Over Financial Reporting

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

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 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.

**INDEPENDENT AUDITORS' 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***

Our 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified deficiencies in internal control, as described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses, see findings 2017-001 and 2017-002.

Compliance and Other Matters

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

Organization's Response to the Findings

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
April 25, 2018



CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Social Science Services, Inc.
Bloomington, CA

Report on Compliance for Each Major Federal Program

We have audited Social Science Services, Inc.'s (the Organization) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Opinion on Each Major Federal Program

In our opinion, the Organization complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Major Federal Programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED
BY THE UNIFORM GUIDANCE**

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization, as of and for the year ended June 30, 2017, and have issued our report thereon dated April 25, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of basic 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 our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole. As noted in the schedule of findings and questioned costs as item 2017-003, we considered the Organization's inability to readily provide federal award information to prepare the schedule of expenditures of federal awards a significant deficiency.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California

July 18, 2018

SOCIAL SCIENCE SERVICES, INC.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services			
Block Grants for Community Mental Health Services			
Passed through County of San Bernardino:			
Block Grants for Community Mental Health Services	93.958	12-341	\$ 179,127
Block Grants for Community Mental Health Services	93.958	15-344	<u>860,308</u>
Total Block Grants for Community Mental Health Services			<u>1,039,435</u>
Block Grants for Prevention and Treatment of Substance Abuse			
Passed through County of San Bernardino:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	12-369	64,398
Block Grants for Prevention and Treatment of Substance Abuse	93.959	15-425	725,760
Passed through County of Riverside:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	<u>129,506</u>
Total Block Grants for Prevention and Treatment of Substance Abuse			<u>919,664</u>
Medical Assistance Program			
Passed through County of San Bernardino:			
Medical Assistance Program	93.778	12-369	78,408
Passed through County of Riverside:			
Medical Assistance Program	93.778	N/A	<u>423,127</u>
Total Medical Assistance Program			<u>501,535</u>
Total Department of Health and Human Services Programs			<u>2,460,634</u>
Total Expenditures of Federal Awards			<u>\$ 2,460,634</u>

N/A - Not Available

The accompanying notes are an integral part of this schedule.

SOCIAL SCIENCE SERVICES, INC.

Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SOCIAL SCIENCE SERVICES, INC. ORGANIZATION, INC.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I: Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP, April 25, 2018: *Unmodified*

Internal control over financial reporting:

Material weaknesses identified? *Yes*

Significant deficiencies identified? *No*

Noncompliance material to financial statements noted? *No*

Federal Awards

Internal control over major federal programs:

Material weaknesses identified? *No*

Significant deficiencies identified? *No*

Type of auditors' report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? *Yes*

Identification of major federal programs:

Block Grants for Community Mental Health Services, CFDA #93.958

Dollar threshold used to distinguish between type A and type B programs: *\$750,000*

Auditee qualified as low-risk auditee? *Yes*

SOCIAL SCIENCE SERVICES, INC.

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

Section II: Financial Statement Findings

2017-001 Reconciliation and Financial Close Process

Criteria: Entities should have a system of consistent monthly reconciliations and closing procedures in order to provide more accurate financial statements.

Condition: Our audit procedures revealed the lack of a systematic method to ensure complete monthly closing procedures are taking place and reconciliations being performed, in particular related to the June 30, 2016 fiscal-year end and a portion of the June 30, 2017 fiscal year-end. A lack of specific closing procedures over multiple accounts that are not regularly reconciled may ultimately cause significant errors in the financial records and statements, as well as allow for possible irregularities, including fraud, to exist and continue without notice. As a result, the beginning net assets as of June 30, 2017 were restated. We noted the following deficiencies:

- Journal entries for prior year close and audit adjustments were not recorded which caused the financial records and general ledger balances to not reconcile to the 2015-16 audited financial statements. When inquiring with the predecessor auditor, multiple adjustments were identified of which only a few were communicated to and booked internally by the Organization. As a result, the Organization's trial balance did not agree to its audited financial statements.
- There were no formal procedures for monthly close activities or regular account reconciliations (other than bank reconciliations which are not reviewed). This resulted in multiple errors identified in the accounts and necessitated restatements.
- The detailed fixed asset listing was not reconciled to the general ledger. In addition, the fixed asset listing had not been evaluated for fully depreciated assets which were no longer in use and should be removed from the fixed asset detail. The fixed asset listing had not been updated over the past few years to reflect additions and deletions. This resulted in a material overstatement of the gross capital equipment as reported in the financial statements in previous years. We also noted that the Organization does not have a capitalization policy; and as a result, there was a lack of consistency in asset classes being capitalized and depreciated on a similar basis.

Context: The deficiencies were noted through the normal course of the audit of beginning net asset balances.

Effect: Misstatement of financial position, in particular misstatement of beginning net assets.

Cause: Lack of internal review and turnover of key organizational personnel

Recommendation: Establish a system of consistent monthly reconciliations and closing procedures in order to provide more accurate financial statements. We strongly recommend the Organization establish more effective review and reconciliation policies and procedures as a customary part of the accounting process. This would involve monthly reconciliations of all accounts, making adjustments throughout the year that have typically been made at year-end only, and performing more frequent reviews of the general ledger throughout the year.

SOCIAL SCIENCE SERVICES, INC.

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

Organization's Response:

While understanding some of the shortcomings discussed in the Schedule of Findings, it is important to note that many steps have been undertaken to address issues in the subsequent time from the timeframe of the scope of this audit. Prior to the June 30, 2017 year-end period, Social Science Services, Inc., had engaged an outside audit firm to perform yearly audit functions and provide guidance in the preparation of periodic financial statements. Clearly these are two different functions and there should be separation of these duties for avoidance of conflicts of interest.

During the fiscal year July 1, 2016 – June 30, 2017 a new CEO, Jamie Lamb began her employment at Social Science Services, Inc. She noted a need for more financial expertise and guidance and in May of 2017, she engaged an outside Finance Professional, Rick White, to act as CFO on a part-time basis. At this time the prior Audit Firm resigned and the process of addressing some of the weaknesses in Social Services' financial structure began.

- The Finance Director made no journal entries unless provided by the previous Audit Firm. During the audit for 2016-17 it was revealed that the Finance Director had not been given the proper entries by the audit firm resulting in discrepancies.
- Beginning in the fiscal year 2017-18 there are to be monthly closings with financial statements, bank statements and accompanying schedules. All schedules will tie to the statements and will be reviewed and approved by the CFO.
- The detailed fixed asset listing was being addressed before the current audit began. Most of the issues in this area go back to prior years when there needed to be systematic record keeping. This was brought to the attention of the current Audit Firm before there audit began.

2017-002 Key Internal Controls

Criteria: Effective key internal controls over various aspects of the accounting process is necessary to ensure that financial activities are properly recorded.

Condition: Our audit procedures included reviewing key transaction cycles and documenting internal controls and procedures over cash receipts, cash disbursements and payroll, including sampling transactions of each. These procedures revealed a lack of proper controls and segregation of duties that may ultimately cause significant error in internal controls due to lack of proper review and oversight. We noted the following deficiencies:

Controls over Payroll

Observation: During our review of payroll controls, we noted 1 of 5 employees selected for testing whose time sheet stated they worked 35.25 hours, yet the payroll register listed they had worked 83.25 hours, for a variance of 48 hours. Per discussion with the Administrative Assistant who oversees payroll, she explained that the employee's manager had asked for the additional hours to be added to the employee's timecard after the timecard was finalized; yet there was no explanation obtained or support retained for these additional hours.

SOCIAL SCIENCE SERVICES, INC.

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

Recommendation: To prevent duplicate or missing hours worked, employees should enter all time worked onto their time card for hours worked which should be verified and approved by the supervisor. The payroll register hours worked should match the employees' time cards to provide support for wages paid. Further, all adjustments to payroll disbursements should have a clear audit trail with substantiation for the changes and proper authorization. Lastly, time cards should be fully completed and approved by the employees' supervisor/manager. Any discrepancies in hours should be fully documented and appropriately supported prior to an employee being paid.

Observation: During our review of the payroll internal control questionnaire, we noted that there is no formal control to ensure that terminated employees are no longer being paid post termination.

Recommendation: To prevent employees from being paid subsequent to termination, someone other than the person who processes payroll should verify that terminated employees are no longer being paid to avoid possible collusion and inappropriate continuation of pay rate post termination.

Observation: During our review of the payroll internal control questionnaire, we noted that the Administrative Assistant has access to signed checks, can authorize a payment transaction and has access to make payroll changes. In theory, the Administrative Assistant could set up a false employee and keep the check for herself.

Recommendation: To prevent unauthorized payments to "ghost" employees, someone other than the Administrative Assistant should be performing a detailed review of payroll processing to ensure that each payroll is processed, recorded and appropriate. Such review should be evidenced by an initial and date of the reviewer to avoid possible collusion and inappropriate pay rates being processed.

Segregation of Duties – Cash Receipts and Bank Reconciliation

Observation: We noted that there was a lack of segregation of duties within the cash receipts process. The Finance Director opens the mail, enters the cash receipts, prepares deposits and takes the deposits to the bank. Bank reconciliations are also prepared by the Finance Director. There are not any compensating controls as completed bank reconciliations are not reviewed or approved by another employee independent of the receipting process.

Recommendations: Although the small size of the Organization's staff limits the extent of segregation of duties, separating certain closely related functions in the cash receipts system of the Organization will result in stronger internal control over cash receipts.

Check Disbursements

Observation: During our walkthrough of cash disbursement procedures, we noted 4 of 5 transactions selected for testing in which there was no documentation of the approval for the purchases and invoices for goods/services.

SOCIAL SCIENCE SERVICES, INC.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Recommendation: Documentation of approval should be visible for all purchases of goods and services. All purchases and invoices for goods and services should have a clear form of approval and audit trail from the initiation of order to final processing of invoice and receipt of goods or services.

Journal Entry Support and Review

Observation: Journal entry support, including the journal entry itself, is not maintained. As a result, journal entries did not show evidence of review by someone other than the preparer. The lack of maintaining journal entries, the related support; as well lack of review over journal entries allows for potential errors or irregularities, including fraud, to occur without detection

Recommendation: Documentation to support journal entries should be maintained, including evidence of review by an individual not responsible for creating or recording the journal entries.

Context: The deficiencies were noted through the normal course of the audit.

Effect: Misstatement of financial position

Cause: Lack of internal review and turnover of key organizational personnel

Organization's Response:

When working with smaller institutions, Internal Controls is an area that always arises because the size of the financial staff generally limits the amount of separation of duties that can be obtained. Typically it becomes important to have policies and systems in place making it difficult for one person to commit and fraudulent activity. At this time, employees use an electronic time and attendance system and each department manager reviews and approves the hours of the employees in their department. This is forwarded to the payroll administrator.

A review of the payroll may be instituted but the effectiveness of this is suspect given the number of employees and the number of hours worked. The overall reliance will have to remain with the hiring of trustworthy, capable employees, spot checks and vigilance by management.

Please note above point as bank reconciliations will be reviewed monthly by the CFO.

Journal entries will be kept with the monthly closing records and properly reviewed.

SOCIAL SCIENCE SERVICES, INC.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section III—Federal Award Findings and Questioned Costs

2017 – 003

Type of Finding:

- Significant Deficiency in Internal Control over Schedule of Expenditures of Federal Awards

Condition: The Organization was not able to provide a schedule of expenditures of federal awards (SEFA) or a breakdown of the federal grant revenue passed from County agencies on a timely basis for audit.

Criteria or specific requirement: Uniform guidance requires the auditee to prepare a schedule of expenditures of federal awards. For grants paid at a fixed rate per mode of service, Federal expenditures will equal Federal revenue received.

Context: Amounts received from the County agencies are not clearly identified as Federal, State or local. A request must be made from the County to obtain this level of detail.

Effect: The lack of internal procedures to obtain the necessary information from the County resulted in delays in the audit and may increase the risk of misstatements occurring and not being detected and corrected on the Schedule of Expenditures of Federal Awards.

Cause: The Organization did not request a breakdown of Federal revenue from each County agency prior to the audit. In addition, the Organization had not established a consistent procedure for allocation of program expenses by County grant which further resulted in delays in the audit process.

Repeat Finding: This is not a repeat finding.

Recommendation: The Organization should request the necessary funding information to compile the SEFA annually. In addition, the Organization should evaluate how financial data is recorded to provide a clear accounting of expenditures by County grant.

Views of responsible officials and planned corrective actions: We acknowledge that we did not provide a schedule of expenditures of federal awards or of the federal grant revenue from county agencies. However, as explained in conversation with the auditors, this was not a requirement of any previous audit so therefore we were unaware of this expectation. The difficulty of this assignment comes from previously our contacts for these programs were from the county and the county was negotiating a fee for service rate with Social Science Services. There was never a discussion as to how the funds for these services were originating. In a sense, the counties needed the programs that Social Science Services provided.

SOCIAL SCIENCE SERVICES, INC.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

The entire billing procedures to operate all residential programs and the payment process has now been changed to a reimbursement for service. Social Science Services has been developing a system to allocate all of the program expenses proportionately to the programs to tie income with expense. We will then be able to allocate federal, state and county dollars to the programs if we receive the revenue breakdown information from the county agencies. We are at the mercy of the counties in this aspect and given their very questionable response time to provide this information to us it may prove to be problematic. We will make every effort to gather this information as quickly as possible. As of this date, one month past the close of fiscal year 2017-2018 the information was requested seems not to be available.

Section IV— Schedule of Prior Year Findings and Questioned Costs

None

Oversight Agency for Audit:

County of San Bernardino
County of Riverside

Social Sciences, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2017.

Audit period: July 1, 2016 – June 30, 2017

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2017-001 Reconciliation and Financial Close Process

Recommendation: Establish a system of consistent monthly reconciliations and closing procedures in order to provide more accurate financial statements. We strongly recommend the Organization establish more effective review and reconciliation policies and procedures as a customary part of the accounting process. This would involve monthly reconciliations of all accounts, making adjustments throughout the year that have typically been made at year-end only, and performing more frequent reviews of the general ledger throughout the year.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action planned/taken in response to finding: While understanding some of the shortcomings discussed in the Schedule of Findings, it is important to note that many steps have been undertaken to address issues in the subsequent time from the timeframe of the scope of this audit. Prior to the June 30, 2017 year-end period, Social Science Services, Inc., had engaged an outside audit firm to perform yearly audit functions and provide guidance in the preparation of periodic financial statements. Clearly these are two different functions and there should be separation of these duties for avoidance of conflicts of interest.

During the fiscal year July 1, 2016 – June 30, 2017 a new CEO, Jamie Lamb began her employment at Social Science Services, Inc. She noted a need for more financial expertise and guidance and in May of 2017, she engaged an outside Finance Professional, Rick White, to act as CFO on a part-time basis. At this time the prior Audit Firm resigned and the process of addressing some of the weaknesses in Social Services' financial structure began.

- The Finance Director made no journal entries unless provided by the previous Audit Firm. During the audit for 2016-17 it was revealed that the Finance Director had not been given the proper entries by the audit firm resulting in discrepancies.

- Beginning in the fiscal year 2017-18 there are to be monthly closings with financial statements, bank statements and accompanying schedules. All schedules will tie to the statements and will be reviewed and approved by the CFO.
- The detailed fixed asset listing was being addressed before the current audit began. Most of the issues in this area go back to prior years when there needed to be systematic record keeping. This was brought to the attention of the current Audit Firm before there audit began.

Name(s) of the contact person(s) responsible for corrective action: Jamie Lamb, CEO or Rick White, Consulting CFO

Planned completion date for corrective action plan: April 2018.

2017-002 Key Internal Controls

Recommendations:

- Controls over Payroll
 - To prevent duplicate or missing hours worked, employees should enter all time worked onto their time card for hours worked which should be verified and approved by the supervisor. The payroll register hours worked should match the employees' time cards to provide support for wages paid. Further, all adjustments to payroll disbursements should have a clear audit trail with substantiation for the changes and proper authorization. Lastly, time cards should be fully completed and approved by the employees' supervisor/manager. Any discrepancies in hours should be fully documented and appropriately supported prior to an employee being paid.
 - To prevent employees from being paid subsequent to termination, someone other than the person who processes payroll should verify that terminated employees are no longer being paid to avoid possible collusion and inappropriate continuation of pay rate post termination.
 - To prevent unauthorized payments to "ghost" employees, someone other than the Administrative Assistant should be performing a detailed review of payroll processing to ensure that each payroll is processed, recorded and appropriate. Such review should be evidenced by an initial and date of the reviewer to avoid possible collusion and inappropriate pay rates being processed.
- Segregation of Duties – Cash Receipts and Bank Reconciliation
 - Although the small size of the Organization's staff limits the extent of segregation of duties, separating certain closely related functions in the cash receipts system of the Organization will result in stronger internal control over cash receipts.

- Check Disbursements
 - Documentation of approval should be visible for all purchases of goods and services. All purchases and invoices for goods and services should have a clear form of approval and audit trail from the initiation of order to final processing of invoice and receipt of goods or services.
- Journal Entry Support and Review
 - Documentation to support journal entries should be maintained, including evidence of review by an individual not responsible for creating or recording the journal entries.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action planned/taken in response to finding: When working with smaller institutions, Internal Controls is an area that always arises because the size of the financial staff generally limits the amount of separation of duties that can be obtained. Typically, it becomes important to have policies and systems in place making it difficult for one person to commit and fraudulent activity. At this time, employees use an electronic time and attendance system and each department manager reviews and approves the hours of the employees in their department. This is forwarded to the payroll administrator.

A review of the payroll may be instituted but the effectiveness of this is suspect given the number of employees and the number of hours worked. The overall reliance will have to remain with the hiring of trustworthy, capable employees, spot checks and vigilance by management.

Please note above point as bank reconciliations will be reviewed monthly by the CFO.

Journal entries will be kept with the monthly closing records and properly reviewed.

Name(s) of the contact person(s) responsible for corrective action: Jamie Lamb, CEO or Rick White, Consulting CFO

Planned completion date for corrective action plan: June 2018.

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

DEPARTMENT HEALTH AND HUMAN SERVICES

2017-003 Significant Deficiency in Internal Control over Schedule of Expenditures of Federal Awards

Recommendation: The Organization should request the necessary funding information to compile the SEFA annually. In addition, the Organization should evaluate how financial data is recorded to provide a clear accounting of expenditures by County grant.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: We acknowledge that we did not provide a schedule of expenditures of federal awards or of the federal grant revenue from county agencies. However, as explained in conversation with the auditors, this was not a requirement of any previous audit so therefore we were unaware of this expectation. The difficulty of this assignment comes from previously our contacts for these programs were from the county and the county was negotiating a fee for service rate with Social Science Services. There was never a discussion as to how the funds for these services were originating. In a sense, the counties needed the programs that Social Science Services provided. Management will request the information annually from the granting agency as part of the close process; however, receipt of the information is dependent on the respective agency.

Name(s) of the contact person(s) responsible for corrective action: Jamie Lamb, CEO or Rick White, Consulting CFO

Planned completion date for corrective action plan: June 2018

If the County of San Bernardino or the County of Riverside have any questions regarding this plan, please call Jamie Lamb at (909)421-7120.