

SOCIAL SCIENCE SERVICES, INC.
REPORT ON AUDIT OF FINANCIAL STATEMENTS
June 30, 2018



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SOCIAL SCIENCE SERVICES, INC.

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June 30, 2018

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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 Social Science Services, Inc. (the "Organization") (a California corporation) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, 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.

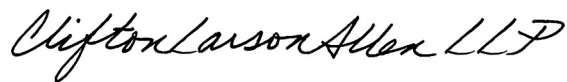
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2019 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP
Glendora, California
May 1, 2019

FINANCIAL SECTION

SOCIAL SCIENCE SERVICE, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,190,102
Accounts receivable	2,301,430
Prepaid expenses	89,296
Total current assets	<u>3,580,828</u>

NON-CURRENT ASSETS

Restricted bond, reserve	231,572
Capital assets - net of accumulated depreciation	2,206,964
Total non-current assets	<u>2,438,536</u>

TOTAL ASSETS	\$ <u>6,019,364</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 1,353,452
Accrued expenses and other liabilities	293,826
Notes and bonds payable, current	182,614
Total current liabilities	<u>1,829,892</u>

NON-CURRENT LIABILITIES

Long-term liabilities	
Bonds and notes payable, net of current portion	440,881
Total non-current liabilities	<u>440,881</u>
Total liabilities	<u>2,270,773</u>

NET ASSETS

Unrestricted	3,748,591
Temporarily restricted	-
Total net assets	<u>3,748,591</u>

TOTAL LIABILITIES AND NET ASSETS	\$ <u>6,019,364</u>
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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, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE, SUPPORT, AND GAINS			
Public support			
Substance rehabilitation service contracts and grants	\$ 4,998,782	\$ -	\$ 4,998,782
Contributions	<u>77,357</u>	<u>-</u>	<u>77,357</u>
Total public support	5,076,139	-	5,076,139
Private pay	32,515	172,729	205,244
Miscellaneous	7,830	-	7,830
Net assets released	<u>196,227</u>	<u>(196,227)</u>	<u>-</u>
Total public support, revenues and gains	<u>5,312,711</u>	<u>(23,498)</u>	<u>5,289,213</u>
EXPENSES AND LOSSES			
Program services expense	4,269,251	-	4,269,251
Management and general	722,604	-	722,604
Fundraising	<u>37,501</u>	<u>-</u>	<u>37,501</u>
Total expense	<u>5,029,356</u>	<u>-</u>	<u>5,029,356</u>
CHANGE IN NET ASSETS	<u>283,355</u>	<u>(23,498)</u>	<u>259,857</u>
Net Assets - Beginning of year	<u>3,465,236</u>	<u>23,498</u>	<u>3,488,734</u>
NET ASSETS - END OF YEAR	<u>\$ 3,748,591</u>	<u>\$ -</u>	<u>\$ 3,748,591</u>

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, 2018**

	Program Services							Total	Management and General	Fundraising	Total
	Residential	Withdrawal Management	Sober Living	Apple Valley	Maple House	DUI Program	Outpatient				
Salaries	\$ 1,529,066	\$ 156,062	\$ -	\$ 13,541	\$ 249,999	\$ 118,533	\$ 153,490	\$ 2,220,691	\$ 403,720	\$ -	\$ 2,624,411
Payroll Taxes	120,808	13,732	-	1,036	19,125	8,130	11,742	174,573	28,071	-	202,644
Employee Benefits	367,048	37,462	-	3,250	60,012	25,511	36,845	530,128	99,854	-	629,982
Contract Labor	47,290	4,827	-	-	3,111	-	2,600	57,828	12,865	37,501	108,194
Legal and Professional Fees	17,284	1,764	9,288	-	2,710	321	1,848	33,215	4,702	-	37,917
Supplies	33,877	3,458	209	-	1,727	2,162	-	41,433	9,216	-	50,649
Rent	17,143	1,750	-	-	-	348	626	19,867	4,664	-	24,531
Telephone	49,446	5,047	2,160	-	6,807	1,424	2,120	67,004	13,452	-	80,456
Travel & Seminars	25,968	2,650	-	-	407	-	-	29,025	7,064	-	36,089
Insurance	46,177	4,713	-	-	1,611	880	1,581	54,962	12,562	-	67,524
Medical Exams and Drugs	22,734	2,119	-	-	188	576	1,163	26,780	-	-	26,780
Food	280,706	26,167	24,418	-	3,848	-	-	335,139	-	-	335,139
Program Fees	14,841	1,383	-	-	-	8,365	-	24,589	-	-	24,589
Administration	43,419	4,432	-	-	21,528	989	8,291	78,659	11,812	-	90,471
Maintenance & Occupancy	220,386	22,493	8,765	613	31,968	3,714	2,345	290,284	59,955	-	350,239
Dues and Subscriptions	4,928	503	-	-	-	-	-	5,431	1,341	-	6,772
Advertising	4,851	495	-	-	-	-	-	5,346	1,320	-	6,666
Laundry	7,871	734	-	-	3,842	-	-	12,447	-	-	12,447
Client Activities	48,313	4,504	-	-	1,076	-	-	53,893	10,563	-	64,456
Other	845	86	-	82,128	-	-	-	83,059	230	-	83,289
Total Expenses by Function	2,903,001	294,381	44,840	100,568	407,959	170,953	222,651	4,144,353	681,391	37,501	4,863,245
Interest	10,546	1,076	8,771	-	-	344	618	21,355	2,869	-	24,224
Depreciation	79,736	8,138	2,308	-	9,358	1,432	2,571	103,543	21,692	-	125,235
Amortization	-	-	-	-	-	-	-	-	16,652	-	16,652
Total Expenses	\$ 2,993,283	\$ 303,595	\$ 55,919	\$ 100,568	\$ 417,317	\$ 172,729	\$ 225,840	\$ 4,269,251	\$ 722,604	\$ 37,501	\$ 5,029,356

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, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customer and users	\$ 4,754,052
Payments to employees	(3,389,144)
Payments to vendors and suppliers	<u>(1,526,150)</u>
Net cash used by operating activities	<u>(161,242)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of capital assets	(217,522)
Bond reserve	<u>(6,962)</u>
Net cash used by investing activities	<u>(224,484)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal and interest payments on long-term debt	<u>(159,409)</u>
Net cash used by financing activities	<u>(159,409)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (545,135)

Cash and Cash Equivalents - Beginning of Year 1,735,237

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 1,190,102

RECONCILIATION OF CHANGE IN NET ASSETS TO NET

CASH USED BY OPERATING ACTIVITIES

Change in net assets	<u>\$ 259,857</u>
Adjustments to reconcile change in net assets to cash provided by operations:	
Depreciation and amortization	141,887
Adjustments to reconcile change in net assets to net cash	
Provided by operating activities:	
(Increase) decrease in assets:	
Accounts receivable	(1,799,166)
Prepays	(59,610)
Increase (decrease) in liabilities:	
Accounts payable	1,227,897
Accrued expense	<u>67,893</u>
Total adjustments	<u>(421,099)</u>
Net cash used by operating activities	<u><u>\$ (161,242)</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, 2018**

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, 2018**

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. Cash and highly liquid financial instruments restricted for long-term purposes are excluded from this definition and include unrestricted bond reserves held in short term fixed deposits.

Accounts Receivable

Accounts receivable consist primarily of noninterest-bearing amounts due for services. Management records an allowance for doubtful accounts based upon the historical collection experience of the Organization. Accounts receivable are evaluated by management and are written off against the allowance when deemed uncollectable.

Property and Equipment

Property and equipment additions over \$4,500 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, 2018 was \$16,652. As of June 30, 2108, \$36,079 of unamortized costs associated with bond issuance costs were recorded and are reported as part of the long-term debt balance.

SOCIAL SCIENCE SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

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. As of June 30, 2018, the Organization did not have any restricted net asset balances.

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, 2018**

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 May 1, 2019 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. Upon termination, the Organization retained all employees as their own and began utilizing a payroll provider, Big Fish Employer Services, effective January 1, 2018.

SOCIAL SCIENCE SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable for the year ended the year ended June 30, 2018, was as follows:

Employee Advances	\$ 1,601
San Bernardino County	400,249
Riverside County	1,899,580
Total	<u>\$ 2,301,430</u>

NOTE 4: RESTRICTED DEPOSITS WITH BOND TRUSTEE

Restricted deposits with bond trustee for the year ended June 30, 2018, was as follows:

Purchase payment account: These funds are used for the payment of principal and interest on bond indebtedness.	\$ 119,167
Interest account: These funds are used for the payment of principal and interest on bond indebtedness.	6,703
Reserve account: These funds are held in trust as a reserve for purchase payments.	105,702
Total	<u>\$ 231,572</u>

NOTE 5: FIXED ASSETS

Fixed assets for the year ended June 30, 2018, was as follows:

Land	\$ 1,084,900
Buildings	1,325,000
Improvements	744,441
Fixtures & equipment	325,400
Vehicles	140,410
Apple Valley residence leasehold improvements	69,904
Total	<u>3,690,055</u>
Less accumulated depreciation	<u>1,483,091</u>
Total fixed assets	<u>\$ 2,206,964</u>

Depreciation for the fiscal year ended June 30, 2018 was \$125,235.

SOCIAL SCIENCE SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 6: ACCRUED EXPENSES

Accrued expense for the year ended June 30, 2018, was as follows:

Vacation	\$	156,982
Payroll		136,844
Total		\$ 293,826

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, 2018 was \$264,574.

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, 2018 was \$395,000.

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, 2018.

Future Maturity of Debt

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

	Bonds	Notes	Total
2019	\$ 130,000	\$ 52,614	\$ 182,614
2020	130,000	54,215	184,215
2021	135,000	55,864	190,864
2022	-	57,563	57,563
2023	-	44,318	44,318
Total	\$ 395,000	\$ 264,574	\$ 659,574
Less unamortized issuance cost	(36,079)	-	(36,079)
Total	\$ 358,921	\$ 264,574	\$ 623,495

SOCIAL SCIENCE SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 8: CONCENTRATION OF CREDIT RISK

The Organization maintains its cash and cash equivalents with major banks and financial institutions. The accounts are guaranteed by the FDIC up to \$250,000. At June 30 2018 and 2017, the Organization had \$958,609 and \$1,329,307 in excess of the FDIC insured limit, respectively. The Organization has not experienced any losses in these accounts and management believes it is not exposed to significant risk in these accounts.

At June 30, 2018, the contracts with the County of San Bernardino amounted to 69.88% of all revenue. If the county budget should change, loss of this revenue could severely impair the Organizations ability to sustain operations.

At June 30, 2018, the contracts with the County of Riverside Bernardino amounted to 23.78% of all revenue. If the county budget should change, loss of this revenue could severely impair the Organizations ability to sustain operations.

NOTE 9: 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.

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 Social Science Services, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, 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 May 1, 2019.

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. Given these limitation, during our audit we did not identify any deficiencies in internal control over financial reporting 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 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*.

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
May 1, 2019

FINDINGS AND RESPONSES

SOCIAL SCIENCE SERVICES, INC.

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018

There were no findings related to the basic financial statements for the year ended June 30, 2018.

SOCIAL SCIENCE SERVICES, INC.

STATUS OF PRIOR YEAR FINDINGS

June 30, 2018

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 of the June 30, 2017 audit report. 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 of the June 30, 2017 audit report.
- 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 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.

Current Status: Implemented.

SOCIAL SCIENCE SERVICES, INC.

STATUS OF PRIOR YEAR FINDINGS

June 30, 2018

FINDINGS

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:

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.

SOCIAL SCIENCE SERVICES, INC.

STATUS OF PRIOR YEAR FINDINGS

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FINDINGS

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.

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.

Current Status: Implemented.

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