

# Northshore Youth and Family Services

## Report No. 92-07 -- Report Summary

Mac Fletcher, Principal Financial Auditor  
Harriet M. Richardson, Senior Financial Auditor  
Dao Tang, Auditor Intern

---

### TABLE OF CONTENTS

- ▶ [Introduction and Background](#)
  - ▶ [Objective and Scope](#)
  - ▶ [Summary Statement of Findings](#)
  - ▶ Major Findings:
    - ▶ [Finding](#) - NYFS accumulated debts exceeded \$260,000.
    - ▶ [Finding](#) - NYFS diverted restricted funds.
    - ▶ [Finding](#) - NYFS had significant internal control weaknesses.
    - ▶ [Finding](#) - NYFS has prepared a repayment and recovery plan.
    - ▶ [Finding](#) - NYFS appears to have provided the services required under county contracts.
    - ▶ [Finding](#) - NYFS double-billed the county on two contracts.
    - ▶ [Finding](#) - Potential contract monitoring issues identified.
- 

### INTRODUCTION AND BACKGROUND

The Northshore Youth and Family Services Agency (NYFS) is a non-profit organization located in Bothell, which provides professional counseling services to citizens residing in the Northshore School District and surrounding areas. While the agency is a community-based organization with a local board of directors, it is also a part of the King County Youth and Family Services Network together with nearly 20 other agencies.

The County Auditor's Office received a special request from a councilmember to review the financial status of NYFS at the earliest opportunity. This request was prompted by several newspaper articles in March and April 1992, reporting that the agency was having severe financial difficulties. The newspaper also reported that the NYFS executive director had resigned in early March and, also, that a quarter of its staff had been laid off. Audit staff were specifically requested to review the impact, if any, of the budget shortfall on grants provided by King County.

## OBJECTIVE AND SCOPE

The objective of the audit was to review the financial condition of NYFS and identify any potential problems with service delivery for the programs funded by King County. While the focus of the audit was on the impact of NYFS's contract with the County, audit staff did conduct, with the concurrence of the current management of the agency, a limited review of their financial and operational policies and procedures. Furthermore, audit staff initiated a preliminary review of contract monitoring policies and procedures used by the King County Human Services Department, Youth and Family Services Network Section.

---

## SUMMARY STATEMENT OF FINDINGS

The audit found that NYFS did encounter significant financial difficulties which included accumulated debts in excess of \$260,000 and the diversion of restricted funds, including \$78,000 in payroll taxes and a \$43,000 capital purpose grant, to operations. Audit staff found that the agency lacked an adequate system of administrative and financial internal controls which was created by a lack of financial policies and procedures, inadequate board oversight, lack of clearly defined goals and objectives, and lack of accurate and timely reporting.

However, NYFS has prepared a repayment and recovery plan. The repayment plan includes an agreement with the IRS to repay delinquent payroll taxes on an installment basis. Other settlements have been reached or are being negotiated. Also, the agency has initiated cost control efforts, including a staff reduction of 7 positions. Audit staff also noted NYFS management's willingness to implement internal control improvements, and we also noted greater involvement by the Board members in financial management of the agency.

It should be noted that audit staff found no evidence to indicate that the County did not receive services contracted with NYFS; although, we found that about \$3,200 was doubled-billed to the County. We also identified several potential contract monitoring issues which will be reviewed in a subsequent audit(s).

NYFS is an independent non-profit agency with its own management and Board of Directors. The agency performs services to its clients and to various entities and governments, including King County, under the terms of contracts it signs with funding agencies. Accordingly, the responsibility for management of the agency is that of its staff and its volunteer Board of Directors, and the County's oversight is limited to NYFS performance of the terms of the contract that it has with King County.

For the above reasons, the County Auditor's Office did not include in this report any specific

recommendations for improving the overall operating and financial management of the agency; although, audit staff did convey verbal suggestions to correct the deficiencies noted during the course of the audit. However, audit staff have included recommendations on findings that were deemed to impact the contract monitoring responsibility of King County.

---

## MAJOR FINDINGS AND RECOMMENDATIONS

Finding 1 - NYFS accumulated debts exceeded \$260,000.

NYFS financial difficulties led to accumulated debts which exceeded \$260,000 by late 1991 and early 1992. Such debts included \$78,000 payable to the IRS for non-payment of payroll taxes. This delinquency also resulted in the IRS placing a lien on NYFS's Bothell facility. Northshore's accumulated debt also included \$120,000 to its bank, including a \$61,000 mortgage and \$35,000 overdraft in its checking account. The remainder of the debt consisted of currently payable obligations to various suppliers and service providers.

Finding 2 - NYFS diverted restricted funds.

To cover its cash flow difficulties and to finance its current operating needs, restricted monies were diverted to meet payroll and other expenditures. Payroll taxes deducted from employees, together with the employer matching portion, were spent instead of being properly deposited with the IRS. Also, a \$43,000 grant from the Boeing Good Neighbor Fund, received to renovate a shed for additional therapy space, was spent on current operating needs instead of paying the contractor hired for the construction project.

Finding 3 - NYFS had significant internal control weaknesses.

It appears that the underlying causes of the financial difficulties encountered by NYFS were attributable to lack of an adequate system of administrative and financial internal controls. Such weaknesses included lack of financial policies and procedures to ensure control over cash disbursements, prevent "questionable" purchases and avoid inconsistent payroll procedures. Audit staff also noted that the Board of Directors did not exercise adequate oversight of the agency's financial operations through such means as budget review and request and verification of timely financial data. It also appears that the Board's responsibilities were not clearly defined. Other manifestations of internal control weaknesses were seen in the lack of financial management goals and objectives and a lack of accurate and timely reporting.

Finding 4 - NYFS has prepared a repayment and recovery plan.

Although the agency has been able to pay, in full, a number of minor creditors, total debt as of July 30, 1992 still remained at about \$245,000. However, NYFS has been able to reach an agreement with the IRS to repay the 1991 payroll taxes on an installment basis. Also, a grant

from the State of Washington was being applied to eliminate the short-term loans with the agency's primary bank. Yet certain contingencies remain, including a potential balloon payment of \$58,000 in mid-1993 on NYFS's mortgage and an unresolved commitment for a five-year lease on its now closed Woodinville satellite office. Other elements of the recovery plan include certain cost control efforts, primarily through staff reductions and preliminary efforts to implement internal control improvements.

Finding 5 - NYFS appears to have provided the services required under county contracts.

Based on a review of contracts, billing files and review of the agency's operations, audit staff found no evidence to indicate that the County did not receive contracted services. However, due to the past financial condition and remaining financial contingencies. *The audit recommended* that the Human Services Department (HSD), primarily its Youth and Family Services Network Section, should monitor NYFS at a somewhat heightened level, specifically with respect to the financial condition of the agency.

Finding 6 - NYFS double-billed the county on two contracts.

In reviewing the NYFS contracts and billing files for invoices to King County, audit staff found evidence of double billing on two County contracts. It was noted that 100% of the salary for two counselors were billed on the "parenting" contract, while during the same months these counselors were also invoiced to the County on "youth and family" counseling contracts.

*The audit recommended* that an estimated \$3,200 in over-billing be recovered from the agency.

Finding 7 - Potential contract monitoring issues identified.

While this audit focused on the review of NYFS's financial condition, audit staff have developed certain preliminary findings on issues dealing with monitoring of human services contracts by the Human Services Department. Such potential contract monitoring issues include: a) overemphasis on invoice review, as opposed to audits or monitoring of financial and operational health of the contract agencies, b) existence of various methods of billing, such as actual cost and hourly rate, c) a higher than expected billing rate due to incorrectly computing the overhead cost factor, d) contract and contract amendment process, including application of the total contract basis in applying Affirmative Action and M/WB requirements, and a possible violation of purchasing requirements, and e) inclusion of areas outside of King County in the "catchment area" and, thus, County-funded service potentially being available to non-County residents. The County Auditor's Office intends to conduct an in-depth review of these issues in the various human services contract program areas.

---

*Updated: 10/25/06*

