

**LUTHERAN SOCIAL SERVICES OF THE
SOUTHWEST**

SINGLE AUDIT REPORTS

YEAR ENDED JUNE 30, 2018

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

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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 and Management
Lutheran Social Services of the Southwest
Phoenix, Arizona

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 Lutheran Social Services of the Southwest (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 January 18, 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 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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 noncompliance 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 Organization'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 Organization's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Leah Fleischman PC". The signature is written in a cursive, flowing style.

Phoenix, Arizona
January 18, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors and Management
Lutheran Social Services of the Southwest
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

We have audited Lutheran Social Services of the Southwest's (the Organization) compliance with the types of compliance requirements described in the *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, 2018. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

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 each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2018-001. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's Response to Findings

The Organization's response to the noncompliance finding identified in our audit is 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 compliance and, accordingly, we express no opinion on the response.

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 circumstance 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 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 in internal control over compliance, 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.

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, 2018, and have issued our report thereon dated January 18, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in 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.

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.

Beach Fleishman PC

Phoenix, Arizona
January 18, 2019

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

| <u>Federal Grant/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal CFDA number</u> | <u>Pass-through entity identifying number</u> | <u>Passed through to subrecipients</u> | <u>Federal expenditures</u> |
|--|------------------------------------|---|--|---------------------------------|
| <u>U.S. Department of Agriculture</u> | | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | | | |
| Passed through: | | | | |
| Arizona Community Action Association | | Not available | \$ - | \$ 20,357 |
| Total U.S. Department of Agriculture | | | - | 20,357 |
| <u>U.S. Department of State</u> | | | | |
| U.S. Refugee Admissions Program | 19.510 | | | |
| Passed through: | | | | |
| Church World Service | | SPRMC018CA0010 | - | 314,840 |
| Episcopal Migration Ministry | | SPRMC016CA1009 | - | 111,075 |
| Lutheran Immigration and Refugee Services | | SPRMC018CA0003 | - | 312,685 |
| Total U.S. Department of State | | | - | 738,600 |
| <u>U.S. Department of Health and Human Services</u> | | | | |
| <u>Aging Cluster:</u> | | | | |
| Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers | 93.044 | | | |
| Passed through: | | | | |
| Area Agency on Aging | | 2018-29-LSSS | - | 18,800 |
| Bridgeway Health Solutions | | Not available | - | 578,020 |
| Banner University Family Care | | Not available | - | 3,281,731 |
| | | 861252302BY/ | | |
| Northern Arizona Council | | 861252302BS | - | 96,821 |
| Pima Council on Aging | | LSSFY17-18 | - | 184,128 |
| Pinal-Gila Council for Senior Citizens | | 014-2302 | - | 39,652 |
| Southeastern Arizona Governments Organization | | 116-18/117-18 | - | 13,780 |
| United Healthcare Community Plan | | Not available | - | 552,979 |
| Total Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers | | | - | 4,765,911 |
| Special Programs for the Aging Title III, Part C Nutrition Services | 93.045 | | | |
| Passed through: | | | | |
| Pima Council on Aging | | Not available | - | 476,947 |
| Nutrition Services Incentive Program | 93.053 | | | |
| Passed through: | | | | |
| Pima Council on Aging | | Not available | - | 68,345 |
| Total Aging Cluster | | | - | 5,311,203 |

See accompanying notes to schedule of expenditures of federal awards.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

| <u>Federal Grant/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal CFDA number</u> | <u>Pass-through entity identifying number</u> | <u>Passed through to subrecipients</u> | <u>Federal expenditures</u> |
|--|------------------------------------|---|--|---------------------------------|
| National Family Caregiver Support, Title III, Part E | 93.052 | | | |
| Passed through: | | | | |
| Pima Council on Aging | | LSS-FY17-18 | - | 17,639 |
| Pinal-Gila Council for Senior Citizens | | 014-2302 | - | 32,576 |
| Southeastern Arizona Governments Organization | | 116-18/117-18 | - | 5,448 |
| Total National Family Caregiver Support, Title III, Part E | | | - | 55,663 |
| Temporary Assistance for Needy Families | 93.558 | | | |
| Passed through: | | | | |
| Arizona Department of Child Safety | | Not available | - | 102,707 |
| Refugee and Entrant Assistance State/Replacement Designee Administered | 93.566 | | | |
| Passed through: | | | | |
| Arizona Department of Economic Security | | ADES17-038232/ ADES17-050747/664 | - | 910,903 |
| Refugee and Entrant Assistance_Voluntary Agency Programs | 93.567 | | | |
| Passed through: | | | | |
| Church World Service | | 90RV0069-03-00 | - | 268,857 |
| Episcopal Migration Ministry | | 90RV0065 | - | 146,639 |
| Lutheran Immigration and Refugee Services | | 90RV0071/03 | - | 253,451 |
| Total Refugee and Entrant Assistance_Voluntary Agency Programs | | | - | 668,947 |
| Refugee and Entrant Assistance_Discretionary Grants | 93.576 | | | |
| Passed through: | | | | |
| Arizona Department of Economic Security | | ADES17-050747/664 | - | 129,605 |
| Episcopal Migration Ministry | | 90RPP0115 | - | 67,617 |
| Lutheran Immigration and Refugee Services | | 90RP0113/01/02 | - | 164,098 |
| Total Refugee and Entrant Assistance_Discretionary Grants | | | - | 361,320 |
| Foster Care Title IV-E | 93.658 | | | |
| Passed through: | | | | |
| Arizona Department of Child Safety | | ADCS15-094753/095868 | - | 296,425 |
| Adoption Assistance | 93.659 | | | |
| Passed through: | | | | |
| Arizona Department of Child Safety | | Not available | - | 4,530 |

See accompanying notes to schedule of expenditures of federal awards.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

| <u>Federal Grant/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal CFDA number</u> | <u>Pass-through entity identifying number</u> | <u>Passed through to subrecipients</u> | <u>Federal expenditures</u> |
|--|------------------------------------|---|--|---------------------------------|
| Social Services Block Grant Program | 93.667 | | | |
| Passed through: | | | | |
| Area Agency on Aging | | 2018-29-LSS | - | 59,981 |
| Arizona Department of Child Safety | | Not available | - | 1,057,054 |
| Pima Council on Aging | | Not available | - | 234,360 |
| Pinal-Gila Council for Senior Citizens | | Not available | - | 117,611 |
| Southeastern Arizona Governments Organization | | Not available | - | <u>23,418</u> |
| Total Social Services Block Grant Program | | | - | <u>1,492,424</u> |
| Total U.S. Department of Health and Human Services | | | - | <u>9,204,122</u> |
| <u>U.S. Department of Homeland Security</u> | | | | |
| Cuban/Haitian Entrant Program | 97.009 | | | |
| Passed through: | | | | |
| Church World Service | | 90RV0069-03-00 | - | <u>57,322</u> |
| Emergency Food and Shelter National Board Program | 97.024 | | | |
| Passed through: | | | | |
| The World Hunger Education, Advocacy & Training | | LRO #0256-00-035 | - | <u>50,115</u> |
| Total U.S. Department of Homeland Security | | | - | <u>107,437</u> |
| Total expenditures of federal awards | | | <u>\$ -</u> | <u>\$ 10,070,516</u> |

See accompanying notes to schedule of expenditures of federal awards.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

1. Basis of presentation:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Lutheran Social Services of the Southwest (the Organization) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of Lutheran Social Services of the Southwest, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of significant accounting policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, Cost Principles for Non-profit organizations or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization did not elect to use the ten percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Catalog of Federal Domestic Assistance (CFDA) Numbers:

The program titles and CFDA numbers or federal identification numbers were obtained from the federal or pass-through grantor or the update to the 2018 Catalog of Federal Domestic Assistance.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

SUMMARY OF AUDITORS' RESULTS

Financial Statements

The auditors' report expressed an unmodified opinion on the financial statements of Lutheran Social Services of the Southwest.

Internal control over financial reporting:

| | | |
|---|-------------------|-----------------|
| Material weakness(es) identified? | <u> </u> Yes | <u> X </u> No |
| Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> No |
| Noncompliance material to financial statements noted? | <u> </u> Yes | <u> X </u> No |

Federal Awards

Internal control over major federal programs:

| | | |
|---|-------------------|-----------------|
| Material weakness(es) identified? | <u> </u> Yes | <u> X </u> No |
| Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> No |

The auditors' report on compliance for the major federal awards programs of Lutheran Social Services of the Southwest expressed an unmodified opinion on its major programs.

Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)

| | |
|------------------|------------------|
| <u> X </u> Yes | <u> </u> No |
|------------------|------------------|

Identification of major federal programs:

Aging Cluster:

| | |
|---|--------|
| Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers | 93.044 |
| Special Programs for the Aging - Title III, Part C - Nutrition Services | 93.045 |
| Nutrition Services Incentive Program | 93.053 |

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

| | | |
|--|------------------|------------------|
| Auditee qualified as a low-risk auditee? | <u> X </u> Yes | <u> </u> No |
|--|------------------|------------------|

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT

None

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

**Questioned
Costs**

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

2018-001 Special Programs for the Aging - Title III, Part C - Nutrition Services- CFDA 93.045
Grant period - Year ended June 30, 2018

Condition and criteria:

When entities are funded on a reimbursement basis, internal controls should be in place to ensure that program costs are paid for with the Company's funds before reimbursement is requested from the Federal Government.

Effect:

Noncompliance with the cash management requirements.

Population and items tested:

Eight expenditures, out of a sample of forty expenditures, were included in the monthly request for reimbursement prior to payment of those expenditures with the Company's funds.

None

Cause:

Reimbursement requests were based on amounts recorded as expenses in the general ledger instead of amounts actually disbursed.

Recommendation:

We recommend the Company establish controls to ensure reimbursement requests are not submitted prior to actual payment disbursement.

Auditee response:

We concur with the auditors' finding. The Organization will ensure compliance with contract requirements by establishing cash management monitoring controls that prevent the submittal of reimbursement requests prior to the actual payment disbursements.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED JUNE 30, 2018

FINDING 2017-001:

- Refugee and Entrant Assistance State/Replacement Designee Administered Programs- CFDA 93.566

Condition:

Fingerprinting requirements stipulated by the grantor should be adhered to and retained in employee personnel files.

Recommendation:

The auditor recommended the Organization establish a monitoring control to ensure copies of fingerprint cards are retained in the employee personnel files.

Current status:

No similar instances were noted in the current year.

FINDING 2017-002:

- Social Services Block Grant Program - CFDA 93.667

Condition:

Reporting requirements stipulated by the grantor should be adhered to and proof of submission retained in the Organization's files.

Recommendation:

The auditor recommended the Organization establish a monitoring control to ensure proof of submission is maintained in a centralized location in addition to a copy of reports submitted.

Current Status:

No similar instances were noted in the current year.