



NOV 26 2001

Office of Audit Services  
Region I  
John F. Kennedy Federal Building  
Boston, MA 02203  
(617) 565-2684

A-01-01-02503

Dale Randall, President of the Board of Directors  
Spectrum Youth and Family Services, Inc.  
31 Elmwood Avenue  
Burlington, Vermont 05401

Dear Mr. Randall:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OIG/OAS) report entitled "Review of Administration for Children and Families Runaway and Homeless Street Outreach Program Administered by Spectrum Youth and Family Services, Inc." A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG/OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5).

To facilitate identification, please refer to Common Identification Number A-01-01-02503 in all correspondence relating to this report.

Sincerely yours,

Michael J. Armstrong  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Direct Reply to HHS Action Official:**

Hugh F. Galligan  
Regional Administrator  
Administration for Children and Families  
U.S. Department of Health and Human Services  
Room 2000, JFK Federal Building  
Boston, Massachusetts 02203

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF ADMINISTRATION FOR  
CHILDREN AND FAMILIES  
RUNAWAY AND HOMELESS STREET  
OUTREACH PROGRAM ADMINISTERED  
BY SPECTRUM YOUTH AND FAMILY  
SERVICES, INC.**



**JANET REHNQUIST**  
Inspector General

**NOVEMBER 2001**  
CIN: A-01-01-02503

# ***Office of Inspector General***

<http://oig.hhs.gov/>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## ***Office of Audit Services***

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

## ***Office of Evaluation and Inspections***

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

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## ***Office of Counsel to the Inspector General***

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

## **EXECUTIVE SUMMARY**

### **Background**

The Administration for Children and Families' (ACF) Runaway and Homeless Youth (RHY) Program began in 1974 in response to concern about increasing numbers of runaway youth exposed to exploitation and the dangers of street life. It has subsequently been expanded to assist homeless youth both on a short term basis and in making the transition to independent living and to provide drug education and prevention services to runaway and homeless youth.

Spectrum Youth and Family Services, Inc. (Spectrum), a nonprofit organization located in Burlington, Vermont, administers an ACF funded RHY Street Outreach Program (SOP) along with various other Federal, State and private funded programs for clientele in the Burlington area. The services provided by Spectrum under the SOP include counseling and social work services to children, adults and families.

### **Objectives**

The objectives of our audit were to assess Spectrum's performance in achieving SOP project objectives and complying with the terms and conditions of the grant award and its capability to properly record, account for and report on Federal funds. Our review covered the SOP grant awards for fiscal years ended September 30, 1998, 1999 and 2000.

### **Summary of Findings**

Based on our review and a recent ACF Regional Office peer review of Spectrum, we believe that program goals were generally being met. In this regard, Spectrum's SOP has been expanded to provide more services to the target population. However, we noted that not all required Program Progress Reports were submitted by Spectrum. With regard to the accounting system and grant management policies we found that Spectrum did not have adequate internal controls to ensure complete compliance with terms and conditions of the grant project and to properly record, account for and report on grant funds.

We noted that Spectrum's annual organization-wide audit performed by its independent Certified Public Accountant (CPA), in conjunction with the Office of Management and Budget (OMB) Circular A-133, identified issues involving deficiencies in the design and operation of Spectrum's internal control system. These deficiencies have been reported in each of the three years ended September 30, 2000 and Spectrum has not taken complete corrective action on these deficiencies. As a result, they continue to be problem areas that could adversely affect Spectrum's ability to administer Federal programs in accordance with applicable requirements.

In addition to the CPA identified deficiencies, we also noted that Spectrum included as their non-Federal share of matching funds costs related to another Federal grant award and other costs that are not appropriate for Federal matching purposes. We also noted that Spectrum regularly draws down ACF grant funds at the rate of one-twelfth per month rather than drawing funds based on

actual program expenditure requirements. In addition, Spectrum did not file all required Financial Status Reports for the period reviewed and maintained a Contingency Account on their accounting books which included small balances.

### **Recommendations**

We recommend that Spectrum:

- ensure that all future Financial Status Reports and Program Progress Reports are filed within prescribed time frames established by ACF and grant requirements;
- correct all financial and accounting deficiencies identified in the CPA's A-133 audit reports;
- ensure that future budget submissions reflect matching non-Federal fund sources that comply with Federal grant requirements;
- ensure all future draw downs are based on actual program related expenditure requirements;
- eliminate the Contingency Account from their accounting system or ensure that Federal funds are not included in the account.

In a written response to our draft report, dated October 27, 2001 (see APPENDIX), Spectrum officials concurred with the recommendations and indicated that policies have been established to correct the deficiencies noted in the report.

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## **INTRODUCTION**

### **BACKGROUND**

The Runaway and Homeless Youth Program (RHY) funds grants for three community based service programs to alleviate the problems of runaway and homeless youth. The Basic Center Program (BCP) supports local youth shelters that provide emergency shelter, food, clothing, counseling, crisis intervention and other services for runaway and homeless youth. The Transitional Living Program (TLP) provides assistance to homeless youths between the ages of 16 and 21 to develop skills and resources to promote independence and prevent future dependency on social services. The Street Outreach Program (SOP), also know as Sexual Abuse Prevention Grants, provides for street-based outreach and education and referral services for runaway, homeless and street youth who have been subjected to or are at risk of being subjected to sexual abuse and exploitation. Grantees must provide a non-Federal share match of cash or in-kind contributions of at least ten percent of the Federal funds awarded.

Spectrum Youth and Family Services, Inc. (Spectrum) is a nonprofit organization that provides a wide range of counseling and social work services to children, adults and families in the Burlington, Vermont area. Spectrum was founded in 1970 as a shelter for runaway and homeless youth. The ACF has funded Spectrum's SOP with grants of \$100,000 annually. Spectrum also received AFC funds for the BCP and TLP portions of the program. In addition, Spectrum receives funding from various other Federal, State and private sources. Total funding for the organization for each of the three years ended September 30, 2000 was \$2.5 million, \$2.6 million and \$3.3 million, respectively.

### **OBJECTIVES, SCOPE AND METHODOLOGY**

Our review was made in accordance with generally accepted government auditing standards. We limited our review to Spectrum's award for the ACF funded SOP. The objectives of our review were to assess Spectrum's performance in achieving project objectives and complying with the terms and conditions of the grant award. We also reviewed Spectrum's capability to properly record, account for and report on Federal funds.

A total of \$300,000 in Federal funds was awarded to Spectrum for the ACF's SOP initiative for the three year period ending September 30, 2000. In addition, for this period a non-Federal match of \$105,020 was budgeted by Spectrum.

To accomplish our objective, we reviewed and analyzed:

- grant application packages including budgets;
- quarterly performance reports and semi-annual financial status reports;
- independent Certified Public Accountant's (CPA) Office of Management and Budget (OMB) Circular A-133 audit reports for fiscal years 1998, 1999 and 2000;

- ACF's report of the program review of the Runaway and Homeless Youth Transitional Living and Street Outreach Program issued in June 2000;
- U.S. Department of Justice's review of the Rural Domestic Violence and Child Victimization Enforcement Grant to Women Helping Battered Women issued in January 1999;
- Board of Director meeting minutes and their accompanying financial statements;
- ACF Regional Office records applicable to the grant and discussed Spectrum's past performance in administering the grant with the Regional ACF Program Manager;
- Spectrum's written fiscal policies and procedures, and interviewed appropriate staff concerning internal controls over Federal grants.

We also verified, for a sample period, the number of program participants as reported on the Program Progress Reports to supporting documentation and visited Spectrum's One Stop Shelter in Burlington, Vermont. Due to the limited scope of this audit, we did not test financial transactions, but instead relied on the work performed by the independent CPA's A-133 audit of the organization as a whole and its compliance for the major federal award programs for the period under review.

We conducted our on site review from May 29 through June 1, 2001, at the Spectrum Youth and Family Services' business office in Burlington, Vermont. We also visited the office of Angolano and Company, CPA, located in Shelburne, Vermont on July 10, 2001.

Spectrum's response to our draft report is included as an APPENDIX to this report.

## **RESULTS OF REVIEW**

### **PROGRAM REVIEW**

The overall goal of the SOP was to provide education and prevention services to reduce the incidence of sexual abuse/exploitation among runaway, homeless and street youth and to provide support and assistance to the youth who have already been a victim of sexual abuse/exploitation. Under the grant Spectrum was to hire additional staff to spend more hours out on the streets talking to youth specifically about sexual abuse exploitation and prevention and expand Spectrum's One Stop drop-in center hours so youth will have a safe place to go and can be at less risk of sexual abuse on the streets.

Based on our review of the quarterly Program Progress Report narratives it appeared that the grant objectives were being met. In this regard, we selected the April to June 1999 Program Progress Report and verified the number of participants reported for each objective to supporting documentation and found that the reported number of project participants was accurate. Based on this it appears that the expansion of the program has occurred. In addition, we noted that Spectrum's RHY project was the subject of a peer-monitored review lead by the ACF Regional

Office during July 1999. The results of this review, issued in June 2000, indicated that Spectrum was meeting the goals and objectives of the programs in a highly satisfactory manner. During our review, we noted that the Program Progress Reports for the March, June and September 2000 quarters had not been submitted to the ACF Regional Office. These reports are required to be submitted within 30 days after the end of the quarter.

### **Recommendation**

We recommend that Spectrum file all future Program Progress Reports within the prescribed time frames established by ACF.

### **Auditee Comments**

In response to our draft report, Spectrum officials concurred with the recommendation and indicated that a policy has been adopted to ensure that these reports are filed timely and accurately.

## **FISCAL ACCOUNTABILITY**

### **Accounting Practices/Internal Controls**

During our review of Spectrum's capability to properly record, account for and report on the expenditure of Federal funds we considered the organizations internal controls and reporting capabilities as it relates to the organization as a whole because the SOP represents only a small portion of Spectrum's total funding. In this regard, we utilized Spectrum's independent CPA's annual organization-wide audits, performed in conjunction with OMB Circular A-133, for the three years ended September 30, 1998, 1999 and 2000 to determine the adequacy of Spectrum's system of accountability for Federal funds.

The OMB Circular A-110, Subpart C.21 (b), states that "Recipient's financial management systems shall provide for the following...accurate, current and complete disclosure of the financial results of each federally-sponsored project or program...Recipients' financial management systems shall provide effective control over and accountability for all funds... Accounting records including cost accounting records that are supported by source documentation."

The independent CPA's A-133 audit reports covering each of the three years noted certain matters involving internal controls over financial reporting that the CPA considered reportable conditions which could adversely affect Spectrum's ability to record, process, summarize and report financial data. The CPA did not consider any of these conditions to be material weaknesses, however, these were continuing problems that have not been completely addressed by Spectrum. Among the more significant issues noted in the reports were the fact that the filing system was unorganized making it difficult to find invoices and receipts. In fact, while testing the year end payable, almost half of the invoices in the CPA's sample could not be located to back up the expense. In addition, the CPA noted that Spectrum's cash balances exceeded the Federal Deposit Insurance Corporation's (FDIC) limit of \$100,000.

The CPA indicated these problems were related to deficiencies in the computer software used by Spectrum, lack of software support and inadequate personnel training. As noted, these issues have been continuing problems and Spectrum has not established procedures and controls to correct all the deficiencies included in the CPA's reports. We believe that if these deficiencies are not completely corrected, they could adversely affect Spectrum's ability to administer federal programs in accordance with applicable requirements of laws, regulations, contracts and grants.

### **Recommendation**

We recommend that Spectrum establish and adhere to internal controls and procedures necessary to correct all financial and accounting deficiencies identified within the CPA reports, including development of cash management policies and procedures that will ensure account balances do not exceed FDIC limits of \$100,000.

### **Auditee Comments**

In response to our draft report, Spectrum officials concurred with the recommendation and indicated that policies have been adopted to address all deficiencies noted in the CPA reports.

### **Draw Downs of Grant Funds**

During our review we noted that Spectrum draws down one-twelfth of the SOP total annual award on a monthly basis. This situation appeared to be occurring across the board for all of Spectrum's Federally funded grant programs. Spectrum's policies and procedures indicate that monthly draw downs should be limited to no more than one-twelfth of the annual award. However, it appears that Spectrum is arbitrarily drawing down funds based on budget amounts and not actual program expenditure requirements. As a result, Spectrum may be drawing down funds in excess of actual needs and depositing them in their accounts.

According to 45 CFR 74.22 (b)(2) "Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project."

### **Recommendation**

We recommend that Spectrum ensure all future draw downs are based on actual program expenditure requirements.

### **Auditee Comments**

In response to our draft report, Spectrum officials concurred with the recommendation and indicated that a new position of business manager has been created and one of the responsibilities of this individual will be to address this situation.

## **Non-Federal Matching Funds**

The ACF award notice required funding from a non-federal source as part of the grant award. The OMB Circular A-110, Subpart A.2(i), defines cost sharing or matching as that portion of project or program costs not borne by the Federal Government. Specifically, Subpart C.23(a) states, "All contributions, including cash and third party in kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria ...Are not paid by the Federal Government under another award...."

We found Spectrum's budget justification for the fiscal year 1999 and 2000 grant awards included costs for two positions funded by another Federal grant award sponsored by the Center of Disease Control and Prevention. We also found that the non-Federal share included fringe benefit costs associated with non-paid volunteer physician services and various mathematical errors. As a result, Spectrum included \$14,880 in the fiscal year 1999 budget and \$17,843 in the fiscal year 2000 budget that did not meet the criteria for Federal cost sharing requirements.

### **Recommendation**

We recommend that Spectrum ensure that future budget submissions reflect matching non-Federal fund sources that comply with OMB A-110 requirements and the terms of the ACF grant award.

### **Auditee Comments**

In response to our draft report, Spectrum officials concurred with the recommendation and indicated that policies are being adopted to ensure that future budget submissions will comply with OMB A-110 requirements and the terms of the grant award.

## **Fiscal Reporting**

Spectrum is required to file Financial Status Reports on a semi-annual basis 30 days after the end of the reporting period. We found that for the review period, three out of six semi-annual Financial Status Reports were not filed with the ACF Regional Office. The Regional Office personnel verified that the reports for the 18-month period March 1999 through October 2000 were never received. Spectrum provided us with copies of the delinquent reports, however, the reports were not complete as they were not dated and/or not signed by Spectrum officials.

### **Recommendation**

We recommend that Spectrum ensure that all future Financial Status Reports are filed within prescribed time frames established by the awarding agency and OMB A-110 requirements.

### **Auditee Comments**

In response to our draft report, Spectrum officials concurred with the recommendation and indicated that a policy has been adopted to ensure that these reports are filed timely and accurately.

### **Contingency Account**

We found that Spectrum's Consolidated Income Statements for April 2000 and November 1999 included a Contingency Account that shows balances of \$8,750 and \$2,500, respectively. Spectrum officials indicated the funds should have been temporarily placed in a miscellaneous expense account, until a new account could be created. Instead they were deposited into the Contingency Account in error. We could not determine if the funds included in the account were from the SOP.

According to OMB A-87, Attachment B, 12, "Contributions to a contingency reserve or any similar provision made for events the occurrence of which can not be foretold with certainty as to time, or intensity, or with an assurance of their happening, are unallowable."

### **Recommendation**

We recommend that Spectrum either eliminate the Contingency Account from the accounting system or ensure that Federal funds are not included in the account.

### **Auditee Comments**

In response to our draft report, Spectrum officials concurred with the recommendation and indicated that a policy has been established to review the account on a regular basis to ensure that no federal funds are deposited in the account.



**SPECTRUM**  
Youth & Family Services

October 27, 2001

Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services  
Region I  
John F. Kennedy Federal Building  
Boston, MA 02203

Re: September 30, 2000 audit response to IG draft report  
CIN A-01-01-02503  
EIN # 03-0253232

To Whom It May Concern:

We are responding to a request dated September 27, 2001 from the Office of the Inspector General of the Department of Health and Human Services regarding the findings and recommendations listed in the draft report titled "Review of Administration for Children and Families Runaway and Homeless Street Outreach Program administered by Spectrum Youth and Family Services, Inc.". Our response to each recommendation is as follows:

1. **Timely filing of future Federal Financial Status Reports and Program Progress Reports** - A policy has been adopted to ensure all of these reports are timely and accurately filed
2. **Correct all financial and accounting deficiencies identified in the CPA's A-133 audit reports** - Policies have been adopted to address all deficiencies noted in the audit. We have sent correspondence regarding policies adopted to address these items to the Department of Health & Human Services in a letter dated October 22, 2001 (see attached copy).
3. **Ensure that future budget submissions reflect matching non-federal fund sources that comply with Federal grant requirement** - Policies are being adopted to ensure that future budget submissions address this recommendation. These policies are being set up so that they will comply with OMB A-110 requirements and the terms of the grant award. We are currently in the process of hiring a business manager. One of the responsibilities for this position will be to address this recommendation.

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A United Way Agency

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Spectrum Youth

& Family Services

of Rutland County

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Rutland, Vermont 05701

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Fax: 802-786-8890

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October 27, 2001  
Department of Health and Human Services  
Office of Inspector General  
Page 2

4. **Ensure all future draw downs are based on actual program related expenditure requirements** - One of the responsibilities for the newly created business manager position will be to address this recommendation.
5. **Ensure that Federal funds are not included in Contingency account** - A policy has been set to review this account on a regular basis to make sure no federal funds are deposited in this account.

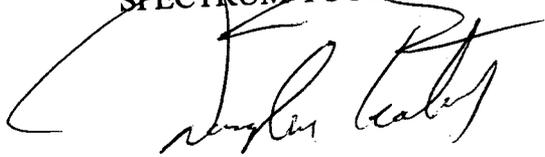
We want to reemphasize that we are in the process of hiring a business manager, which should help us implement these recommendations on a timely and efficient manner.

Due to the many changes we are implementing and the timing of scheduling people to review and approve this response, we realize that this is not being submitted by the due date you requested. We apologize for this delay but we realize the nature of this request and we want to address it fully so that these types of requests are minimized in the future and we can continue to strengthen and grow our organization. Thank you in advance for your understanding on this matter.

Hopefully, this answers your request. If you have any other questions or need further information, please feel free to contact us.

Sincerely,

SPECTRUM YOUTH AND FAMILY SERVICES, INC.



Douglas L. Teator, CPA  
Treasurer

Enclosures

CC: Will Rowe, Executive Director  
Dale Randall, President of the Board



**SPECTRUM**  
Youth & Family Services

October 22, 2001

Office of Audit Resolution and Cost Policy  
Department of Health and Human Services  
Room 522E, Humphrey Building  
200 Independence Avenue, S.W.  
Washington, DC 20201

Re: September 30, 2000 audit response  
CIN A-01-01-69659  
EIN # 03-0253232

To Whom It May Concern:

We are responding to a request dated September 7, 2001 from the Office of the Inspector General of the Department of Health and Human Services regarding the attached findings and recommendations (see attachment A). Our response is as follows:

1. Recommendation # 029908100 - A policy has been adopted to have a regular review of cash flows and identify potential bank overdrafts so that they can be timely averted. This is to be done through the use of a monthly cash flow worksheet to identify and correct these types of situations. A regular review of the general ledger activity is also to be done to ensure that penalties and/or interest do not get charged to Federal funds.
2. Recommendation # 299927100 - A policy has been adopted to review all cash accounts on a monthly basis to identify and correct all accounts, which exceed the federal limits of \$100,000.
3. Recommendation # 200901100 and 200905100 - All bank accounts are being reconciled on a monthly basis, necessary adjustments are made from these reconciliations and documentation of all reconciliations are available for review.
4. Recommendation #200915100 - Policies and procedures are in place to ensure financial statements are complete, accurate and prepared in accordance with Generally Accepted Accounting Principles.
5. Recommendation #200908100 - A policy has been set that ensures that there is adequate segregation of duties on cash disbursements and all requests for disbursements require an invoice or receipt in order to be paid.

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October 22, 2001

Office of Audit Resolution and Cost Policy

Page 2

6. Recommendation #312908100 - Through the use of a forecast model, all charges for services are being based on actual costs.

We are also in the process of creating and hiring a new position in our accounting department to specifically address all issues raised in the audit to ensure we are in compliance for future audits.

Hopefully, this answers you request. If you have any other questions or need further information, please feel free to contact us.

Sincerely,

SPECTRUM YOUTH AND FAMILY SERVICES, INC.

Douglas L. Teator, CPA  
Treasurer

Enclosures

CC: Will Rowe, Executive Director  
Dale Randall, President of the Board