



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

January 24, 2008

Bryan Ansley, Chair
Aphesis House, Inc.
1124 Fourth Avenue South
Nashville, TN 37210

Dear Mr. Ansley:

Staff from the Office of Financial Accountability (OFA) conducted an onsite review of the supporting documentation and the compliance with the provisions of the contract of the Council Initiative award to the Aphesis House, Inc., on November 1, 2007. Our review covered only the expenditures for the following contract with the Metropolitan Government of Nashville and Davidson County (Metro) for the fiscal year ending June 30, 2007:

<u>Contract No.</u>	<u>Contract Award</u>	<u>Purpose</u>
L-1726	\$10,000	Provide a portion of the funds required to pay for the salary, office equipment, and furniture for a case manager.

A monitoring review is substantially less in scope than an audit. The OFA did not audit the Aphesis House, Inc.'s financial statements and, accordingly, does not express an opinion or any assurances regarding the financial statements of the Aphesis House, Inc. The monitoring review was conducted in accordance with the Metro Grants Manual.

The review identified instances on non compliance which are addressed in the attached report. Please review and respond to the issues addressed in the report. Your response should be addressed to:

Mr. Mike Curl
Metropolitan County Council
Metro Courthouse
One Public Place, Suite 204
P. O. Box 196300
Nashville, TN 37219-6300

We appreciate the assistance provided by your agency during the course of the review. If you have any questions, please call me at (615) 880-1035.

Sincerely,

Fred Adom

Fred Adom, CPA
Director

cc:
James Settles, Executive Director
OFFICE OF FINANCIAL ACCOUNTABILITY

Diane Neighbors, Vice Mayor
Richard M. Riebeling, Director of Finance
Talia Lomax-O'dneal, Deputy Director of Finance
Gene Nolan, Deputy Director of Finance
Kim McDoniel, Chief of Accounts
Mark Swann, Internal Audit
Mike Curl, Metro Council Finance Manager
Bryan Gleason, Office of Financial Accountability



Metropolitan Government of Nashville and Davidson County

◆ **Monitoring Report of** ◆

***Metropolitan Government of Nashville and
Davidson County***

Council Initiative Direct Appropriation to:

Aphesis House, Inc.

Conducted by



Office of Financial Accountability

January 24, 2008

Our Vision: To be excellent and proficient in monitoring and management services.

FINANCIAL ACCOUNTABILITY

AVENUE NORTH, SUITE 650 NASHVILLE, TENNESSEE 37201

Phone: 615-880-0135
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Monitoring Report
for
Aphesis House, Inc.

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OBJECTIVES, SCOPE AND METHODOLOGY

The Office of Financial Accountability (hereinafter referred to as “OFA”) has completed a monitoring review for the **Aphesis House, Inc.** (hereinafter referred to as “Agency”). The OFA conducted its monitoring review along the major compliance areas identified in the Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations” and in accordance with Generally Accepted Government Auditing Standards and the Metro Grants Manual of the Metro Nashville Government of Nashville and Davidson County (hereinafter referred to as “Metro”).

Overview of the Agency

The Aphesis House, Inc. is a not-for-profit corporation, recognized by the State of Tennessee in April of 2004 as outlined in the Internal Revenue Code 501 © (3) and the Tennessee Nonprofit Corporation Act. The Agency works closely with the Tennessee Department of Corrections and the Tennessee Board of Probation and Parole to provide transitional housing for individuals being released from incarceration. The Board of Directors and the Advisory Board govern Aphesis House, Inc’s regular operations and planning meetings are held quarterly.

The housing facility has a full-time staff, provides meals, and offers job search assistance, a mentoring program, community involvement, recreational activities, and a structured 90 day re-integration program. At the present time, the agency is a male only facility.

Objectives, Scope, and Methodology

A monitoring review is substantially less in scope than an audit. The OFA did not audit Aphesis House, Inc.’s financial statements and, accordingly, does not express an opinion or any assurances regarding the financial statements of Aphesis House, Inc. or Metro. The OFA is responsible for monitoring the direct appropriations awarded by the Metro Council to nonprofit organizations. The OFA is also responsible for monitoring Metro departments that receive Federal and State grants and financial assistance, including cooperative agreements. In summary, any agreement(s) that imposes performance and/or financial requirements on Metro Government is subject to review by the OFA.

The review was limited to the Council Initiative Award – L-1726 for \$10,000. The OFA did not review the other operations and/or expenditures of the agency. The objectives for the monitoring engagement were as follows:

- To verify the organization’s compliance with the contract requirements of the Council Initiative Awards.
- To verify compliance with Metro requirements for allowable and eligible costs of the Council Initiative Awards.
- To obtain assurance of the organization’s compliance with Metro’s reporting requirements of the Council Initiative Awards.

To accomplish the objectives of the monitoring review, the OFA obtained and reviewed documentation from the agency in support of the expenditures for the award.

Monitoring Review Highlights

The review of Aphesis House, Inc. revealed instances of non-compliance which are addressed in the “Results of Monitoring” section that follows.

RESULTS OF MONITORING

The overall results of the monitoring review for the Aphasis House, Inc. award are provided in this section. The results are based on tests performed and include conclusions regarding the specific review objectives and, if applicable, recommendations for improvement and an action plan for implementing the conclusions.

1. The agency failed to adhere to the purpose of the grant contract

FINDING

Test work revealed that Aphasis House, Inc. was not in compliance with requirements of the grant contract. The grant contract states, “*The grantee shall use the funds to provide a portion of the funds required to pay for the salary, office equipment, and furniture for a case manager.*” However, the Agency used a substantial portion of the award to for pay for the payroll taxes for someone the Agency has classified as a contractor.

Evidence indicates that the Aphasis House hired the case manager on a contracted services basis in 2006. The case manager was **not** classified as an employee and therefore, the Agency did not withhold any employment taxes from her compensation nor did the Agency match and pay employment taxes on this “contract” employee. The Agency issued the case manager an IRS Form 1099 at the end of the year showing compensation of \$15,838 in 2006. Tests revealed that the agency made **two** \$1,000 installment payments to the case manager for 2006 payroll taxes in March 2007. In August 2007, the Agency issued the employee another \$1,000 payment as a “refund of 2006 taxes.” According to employment tax rates, the maximum the Agency, as an employer, could have been liable for the case manager’s compensation in 2006 would have been \$1,211. The Agency, though not responsible for a contractor’s taxes, paid the case manager a total of \$3,000 out of the council direct appropriation funds.

In addition, the Agency made a \$2,500 payment on September 27, 2007 to the case manager’s father for the preparation of the **2007** taxes on her behalf, in advance. According to documents reviewed, the director entered into an agreement with the case manager on September 27, 2007 that stated “*I, the CEO of the Aphasis House, Inc. agree to satisfy the “named employee” taxes in two installments. The first installment being paid today in the amount of \$2,500 which will be paid to her father (named tax preparer) as a representative on her behalf by the employee’s request. The second installment will be satisfied after determining the final balance from the fiscal year of 2007. The employee will be responsible for turning those figures into Aphasis House, Inc. at the end of the year for approval by “named CEO” and the board of directors from Aphasis House, Inc.*” It must be noted that the case manager’s total compensation in 2007 amounted to only \$5,560.00; however, the Agency has already paid her father \$2,500 out of the council appropriation for tax preparation services.

Vendor	Date of Payment	Amount	Purpose
Case Manager	3/26/07	\$1,000.00	2006 Taxes
Case Manager	3/28/07	\$1,000.00	2006 Taxes
Case Manager	8/1/07	\$1,000.00	Refund for 2006 Taxes
Case Manager’s father	9/27/07	\$2,500.00	2007 tax preparation for Case Manager

In summary, the agency inappropriately paid \$5,500 of the \$10,000 council initiative award to cover employment taxes for an individual that the Agency had classified as a contractor.

RECOMMENDATION

The OFA recommends that Aphasis House reimburse Metro Nashville Government \$5,500 immediately for the grant funds paid for the case manager's taxes and the preparation of her 2007 tax return. The agency should take the necessary measures to appropriately classify its employees and non-employees. In addition the agency should refrain from paying taxes on individuals classified as non-employees.