

DISASTER AND HUMANITARIAN SERVICES
(A Texas Nonprofit Organization)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED DECEMBER 31, 2018

DISASTER AND HUMANITARIAN SERVICES

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DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Directors of
Disaster and Humanitarian Services
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Disaster and Humanitarian Services (the "Organization"), which comprise the statement of financial position as of December 31, 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.

Auditor's 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 entity'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 entity'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 December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Other Information*

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, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 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 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 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.



Houston, TX
September 30, 2019

DISASTER AND HUMANITARIAN SERVICES
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

CURRENT ASSETS

Cash	\$ 489,483
Prepaid expenses	29,427
Deposits	<u>3,638</u>
Total current assets	<u>522,548</u>
TOTAL ASSETS	<u><u>\$ 522,548</u></u>

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES

Accounts payable	\$ 119,909
Accrued liabilities	124,609
Deferred revenue	307,935
Note payable, current portion	<u>30,300</u>
Total current liabilities	<u>582,753</u>

NONCURRENT LIABILITIES

Note payable, net of current portion	<u>7,700</u>
Total noncurrent liabilities	<u>7,700</u>
TOTAL LIABILITIES	<u>590,453</u>

NET ASSETS

Net assets (deficit)	<u>(67,905)</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u><u>\$ 522,548</u></u>

The accompanying notes are an integral part of these financial statements.

DISASTER AND HUMANITARIAN SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

REVENUES

Federal grant revenue	\$ 2,790,570
Contributions	<u>40,294</u>
TOTAL REVENUES	<u><u>2,830,864</u></u>

EXPENSES

Program services	2,790,570
Management and general	<u>108,568</u>
TOTAL EXPENDITURES	<u><u>2,899,138</u></u>

CHANGE IN NET ASSETS	(68,274)
NET ASSETS, BEGINNING OF YEAR	<u>369</u>
NET ASSETS (DEFICIT), END OF YEAR	<u><u>\$ (67,905)</u></u>

The accompanying notes are an integral part of these financial statements.

DISASTER AND HUMANITARIAN SERVICES
STATEMENT FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>			<u>Total</u>
	<u>Disaster Case Management</u>	<u>Total Program Services</u>	<u>Management & General</u>	
Payroll and related costs	\$ 2,376,533	\$ 2,376,533	\$ 84,988	\$ 2,461,521
IT expenses	92,344	92,344	449	92,793
Bank service charges	359	359	109	468
Insurance	33,816	33,816	-	33,816
Office supplies	120,449	120,449	11,034	131,483
Lease expenses	47,798	47,798	2,530	50,328
Travel expenses	82,468	82,468	3,709	86,177
Utilities	30,808	30,808	4,022	34,830
Other	5,995	5,995	1,727	7,722
TOTAL	<u>\$ 2,790,570</u>	<u>\$ 2,790,570</u>	<u>\$ 108,568</u>	<u>\$ 2,899,138</u>

The accompanying notes are an integral part of these financial statements.

DISASTER AND HUMANITARIAN SERVICES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (68,274)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Change in assets and liabilities:	
Grants receivable	(29,427)
Deposits	(3,638)
Accounts payable	119,909
Accrued liabilities	124,609
Deferred revenue	307,935
Total adjustments	519,388
Net cash provided by operating activities	451,114
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceed from note payable	40,000
Repayment of note payable	(2,000)
Net Cash Provided by Financing activities	38,000
INCREASE IN CASH	489,114
CASH, BEGINNING OF YEAR	369
CASH, END OF YEAR	\$ 489,483

The accompanying notes are an integral part of these financial statements.

DISASTER AND HUMANITARIAN SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Disaster and Humanitarian Services (the “Organization”) is a Texas nonprofit corporation incorporated in October 2014 and an affiliate of Project and Vendor Management Advisors, LLC (PVMA, LLC). The Organization is exempt from federal income tax under Internal Revenue Code (IRC) Section 501(c)(3) and a public charity under the IRC.

The Organization’s mission is to provide caring and respectful assistance to people affected by a disaster and/or humanitarian crisis in need of healthcare, housing, or other social services.

Basis of Accounting

The Organization’s financial statements are presented in accordance with Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) Topic 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC Topic 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets as follows:

Net Assets without donor restrictions – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Organization.

Net Assets with donor restrictions – These are resources that are subject to donor restrictions requiring that the principal be held in perpetuity and any income thereon be used by the Organization. The Organization did not have any net assets with donor restrictions as of December 31, 2018.

The Organization is also required by FASB ASC Topic 958 to present a statement of cash flows and a statement of functional expenses.

Contributions

Under FASB ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made*, the Organization records contributions received, including unconditional promises to give, as net assets without donor restrictions or net assets with donor restrictions, depending upon the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in net assets with restrictions in the reporting period in which the contribution is recognized. However, if the donor restriction is met in the same period the contribution is received, such is recorded as

DISASTER AND HUMANITARIAN SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

contributions without donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue Recognition and Unearned Revenues

Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenue only to the extent of disbursements and commitments that are allowable for reimbursements

Unearned revenue results from advances from government agencies which have been restricted for a specific purpose. Revenue is recognized only to the extent that related expenses have been incurred.

Cash Donations and Donated Services

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations.

Property and Equipment

Property and equipment purchased by the Organization are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All purchases and donations of equipment equal to or greater than \$5,000 are capitalized. Depreciation is provided on the straight-line method based upon estimated useful lives of three to five years for computer and office equipment, and ten years for furniture and fixtures.

Functional Classification of Expenses

Expenses are charged to each program based on direct expenditures incurred. Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff, or other reasonable methods for allocating the organization's multiple function expenditures.

Income Taxes

The Organization is a nonprofit corporation and is exempt from income taxes under Section 501 (c) (3) of the IRC. Accordingly, income taxes are not provided for in the accompanying financial statements.

The Organization applies the provisions of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

DISASTER AND HUMANITARIAN SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Federal income tax returns of the Organization for fiscal years 2015 through 2017 are still subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents as of December 31, 2018.

Liquidity and Availability of Financial Assets

The Organization has \$489,483 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of mainly cash.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Organization's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncements Adopted

In August 2016, FASB issued ASU 2016-14 – *Not-for-Profit Entities (Topic 842): Presentation of Financial Statements of Not-for-Profit Entities*, which eliminates the distinction between resources with permanent restrictions and those with temporary restrictions from the face of financial statements as well as improves the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This update has been applied to the accompanying annual financial statements and footnote disclosures.

Recent Accounting Pronouncements Not Yet Adopted

In August 2016, FASB issued ASU 2016-15 – *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement

DISASTER AND HUMANITARIAN SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This update will be effective for the Organization's 2019 annual financial statements. Management does not expect this update will have any material effect on the Organization's financial statements.

In November 2016, the FASB issued ASU 2016-18 – *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning of period and end-of-period total amounts shown on the statement of cash flows. This update will be effective for the Organization's 2019 annual financial statements. Management does not expect this update will have any material effect on the Organization's financial statements.

In June 2018, the FASB issued ASU 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments require all entities, both donors and recipients, to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction and whether contributions are conditional or unconditional. This update will be effective for the Organization's 2020 annual financial statements. No additional disclosures will be required under this standard. Management is currently evaluating the impact this change will have on its financial statements.

2. CONCENTRATION OF CREDIT RISKS

Custodial credit risk is the risk that, in the event of a bank failure, the Organization's deposit may not be returned to it. Balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The total cash maintained by the Organization in those banks as of December 31, 2018 was \$496,672, of which \$246,672 exceeded the FDIC insured limit and was otherwise uninsured. Management believes that this credit risk exposure was mitigated by the financial strength of the banking institution in which the deposits were held.

For the year ended December 31, 2018, revenue from governmental grants constituted approximately 99% of total revenues, which were passed through funds from Disaster Services Corporation-Society of St. Vincent De Paul USA.

3. PROMISSORY NOTE

On March 31, 2018, the Organization executed a promissory note agreement for an operational loan with PVMA, LLC (its affiliate) for the sum of \$40,000. Under the terms of the agreement, loan shall be repaid on monthly basis, in the amount of \$1,700 beginning on June 1, 2018 per month with an interest rate of 2.5%. The balance outstanding on this loan as of December 31, 2018 amounted to \$38,000.

DISASTER AND HUMANITARIAN SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

4. LEASE TRANSACTIONS

The Organization leases office space and equipment under operating lease agreements with third parties. The following is a schedule of future minimum lease payments under non-cancellable leases:

Year ending December 31,	<u>Amount</u>
2019	\$ 55,603
2020	<u>10,952</u>
	<u>\$ 66,555</u>

The rental expense for all operating leases for the year ended December 31, 2018 was \$49,479.

5. RELATED PARTY TRANSACTIONS

As explained in Note 3, the Organization paid the sum of \$2,000 on its loan with PVMA, LLC (its affiliate). The sum of \$38,000 was outstanding on the loan as of December 31, 2018.

6. NET ASSETS (DEFICIT)

Net assets as of December 31, 2018 amounted to a deficit of \$67,905. The deficit at the end of the year resulted from total expenditures being in excess of total revenues by approximately \$68,000. The Organization's management relies on monthly donations and fundraising activities and has also reduced expenditures after year end. The Organization is currently applying for grant funding for its program activities. The Organization's management believes that these efforts will eliminate the deficit in net position in less than a year.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 30, 2019, the date financial statements were available to be issued. No changes were made or are necessary to be made to the financial statements, as a result of this evaluation.

SUPPLEMENTAL INFORMATION

DISASTER AND HUMANITARIAN SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Governmental grantor/ Pass-through grantor</u>	<u>Federal CFDA #</u>	<u>Pass-through grantor's #</u>	<u>Expenditures</u>
U.S. Department of Homeland Security:			
Passed through Disaster Services Corporation - Society of St. Vincent De Paul USA:			
Disaster Assistance Projects	97.088	FEMA-DR-4332-DCMP	<u>\$ 2,790,570</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,790,570</u></u>

DISASTER AND HUMANITARIAN SERVICES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the “Schedule”) includes federal grant activity of Disaster and Humanitarian Services under programs of the federal government for the year ended December 31, 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 operation of Disaster and Humanitarian Services (the “Organization”), it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

Indirect Cost Rate

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Commitment and Contingencies

Federal grants received by the Organization are subject to review and audit by grantor agencies. The Organization’s management believes that the results of such audits will not have a material effect on the Schedule.



**INDEPENDENT AUDITOR’S 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***

To the Directors of
Disaster and Humanitarian Services
Houston, Texas

We have audited, in accordance with the 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 Disaster and Humanitarian Services (the “Organization”), which comprise the statement of financial position as of December 31, 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 September 30, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’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 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 and therefore, material weaknesses or significant deficiencies may exist that were not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Item **2018-001** that we consider to be material weaknesses.

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 or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's Response to Finding

The Organization's response to the 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 the financial statements and, accordingly, we express no opinion on the response.

We also noted certain other matters that we think present opportunity to strengthen internal controls and operating efficiency. These matters have been communicated to management of the Organization in a separate letter dated September 30, 2019.

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.



Houston, TX
September 30, 2019



INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Directors of
Disaster and Humanitarian Services
Houston, Texas

Report on Compliance for Each Major Program

We have audited the Disaster and Humanitarian Services’ (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 Organization’s major federal programs for the year ended December 31, 2018. The Organization’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s 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 audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirement 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 December 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item **2018-002**. Our opinion on each major federal program is not modified with respect to these matters.

The Organization's responses to the noncompliance findings 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 circumstances 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item **2018-002**, that we consider to be significant deficiencies.

The Organization's responses to the internal control over compliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

McConnell & Jones

Houston, TX
September 30, 2019

**DISASTER AND HUMANITARIAN SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

PART I – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Section

- | | |
|--|------------|
| 1. Type of Auditor’s report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a) Material weakness identified? | Yes |
| b) Significant deficiency identified that is not considered to be a material weakness? | No |
| c) Noncompliance material to financial statements noted? | No |

Federal Awards Section

- | | |
|---|------------|
| 1. Internal control over major programs: | |
| a) Material weakness identified? | No |
| b) Significant deficiency identified that is not considered to be a material weakness? | Yes |
| 2. Type of Auditor’s report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed, which are required to be reported in accordance with 2 CFR section 200.6.516(a)? | Yes |

4. Identification of major programs:

<u>Federal CFDA Number</u>	<u>Name of Federal Program/Cluster</u>
97.088	Disaster Assistance Projects

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee under 2 CFR section 200.520? | No |

DISASTER AND HUMANITARIAN SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

PART II: FINDINGS – FINANCIAL STATEMENT

This section identifies significant deficiencies, material weaknesses, and instances of fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting under 2 CFR Section 200.515(d)(2).

Finding No. 2018-001: Material Weakness in Internal Control Over Financial Reporting

Condition:

The Organization did not properly maintain its general ledger in calendar year 2018. Some of the errors identified in the Organization’s 2018 general ledger include the following:

- In testing revenues, receivables and deferred revenue, we noted overstatement of the following accounts: federal grant revenue by \$410,936, and grant receivable by \$175,677; and understatement of the following: deferred revenue by \$132,259, and accounts payable by \$103,000.
- In general journal entries testing, it was noted that expenses were incorrectly being credited and a liability account being debited, which caused an understatement of expenses and the employee health insurance liability by \$51,715. In addition, there was no appropriate documentation in place as to why the entry was recorded.
- In expense testing, it was noted that expense was understated by offsetting the cash used for expenses against net assets in the amount of \$11,092.

Criteria:

Effective internal controls over financial reporting include proper recording of transactions in the general ledger; adequate supervision and review of transactions to assure the completeness and accuracy of financial information.

Cause:

Following are the key causes:

- The Organization did not maintain adequate financial accounting expertise internally to ensure that the Organization’s financial transactions are properly accounted for and reported in accordance with accounting principles generally accepted in the United States of America.
- The Organization did not have procedures and processes that would adequately support its financial accounting and reporting requirements or serve to mitigate control weaknesses arising from deficiencies in financial accounting expertise.

Effect:

The general ledger was not properly maintained, resulting in inaccuracies in the financial information produced from the general ledger.

DISASTER AND HUMANITARIAN SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Recommendation:

We recommend that the Organization review its existing financial accounting expertise, policies and procedures, and ensure that they are adequate for the Organization's financial reporting needs. Adequate financial accounting, policies and procedures would include procedures that ensure that all financial transactions are properly recorded and reported in a timely manner, accounts properly reconciled and reviewed in a timely manner, transactions recorded in the general ledger are adequately supported and documented, journal entries are properly reviewed and approved by someone other than the preparer, documents supporting financial transactions are properly filed, the general ledger is maintained on the accrual basis, and monthly and annual account closing processes for ensuring that all transactions are properly recorded in the general ledger.

Views of Responsible Officials and Planned Corrective Actions:

See management's corrective action plan from page 24.

**DISASTER AND HUMANITARIAN SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

PART III: FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

This section identifies the significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, as well as any abuse findings involving federal awards that are material to a major program.

Finding Reference No. 2018-002

Reporting

U.S. DEPARTMENT OF HOMELAND SECURITY

Disaster Assistance Projects – CFDA 97.088

Grant Award Numbers: DR 4332 DCMP

Type of Finding: Reporting Non-compliance and Significant deficiency in Internal Control

Questioned Costs: None

Statistical Sampling: The sample was not intended to be, and was not, a statistically valid sample.

Condition: During our review of the Organization's compliance with grant reporting requirements, we noted that the following reports and documents were submitted later than the required due dates stipulated in the grant agreements:

<u>Report/Document Title</u>	<u>Award Identification Number</u>	<u>Report/Document Actual Submission Date</u>	<u>Required Submission Date Per Grant Agreement</u>	<u>Number of Day(s) Late</u>
Monthly report for May 2018	DR 4332 DCMP	July 3, 2018	June 15, 2018	18
Monthly report for July 2018	DR 4332 DCMP	August 16, 2018	August 15, 2018	1
Monthly report for September 2019	DR 4332 DCMP	October 19, 2018	October 15, 2018	4

Criteria: In accordance with the terms of the grant agreements, the Organization was required to submit monthly reports as stipulated in the sub-award agreements with Disaster Services Corporation – Society of St. Vincent De Paul USA.

Cause: The Organization’s procedures related to the preparation and submission of grant reports were not sufficient to ensure that these reports were submitted by the due dates.

Effect: Weaknesses in internal controls and the identified noncompliance with reporting requirements, could result in sanctions by the U.S. Department of Homeland Security. Questioned costs are not applicable to this finding.

Recommendation: We recommend that the Organization establish procedures to ensure that reports are submitted in accordance with the provisions of the contract agreements.

Views of Responsible Officials and Planned Corrective Actions: See management’s corrective action plan on page 24.

**DISASTER AND HUMANITARIAN SERVICES
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018**

PART III: STATUS OF PRIOR YEAR FINDINGS

None for the year ended December 31, 2017.

**DISASTER AND HUMANITARIAN SERVICES
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018**



MANAGEMENT'S CORRECTIVE ACTION PLAN

For the Year Ended December 31, 2018

Views of Responsible Officials and Planned Corrective Actions:

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	Management has enhanced its financial departments staff by adding an experienced Senior Accountant and currently recruiting a Staff Accountant that will report to a part-time and outsourced Controller. This will enable DHS to comply with its segregated duties procedures. The Controller will oversee DHS' month and year end procedures, as well as monthly reporting and general ledger review. DHS is currently in the process of creating a monthly, quarterly and annual schedule of accounting processes and procedures to include a checklist and procedures of month and year end close.	November 30, 2019	Everett Blaylock, Senior Accountant David Gunter, Outsourced Controller Dr. Sabrina Lewis Program Manager and Interim Executive Director
2018 – 002	Management has enhanced its reporting requirement and developed a grant reporting schedule for compliance with the cooperative agreement's requirements and deadlines. The Accounting team will place the deadlines on a shared calendar and will develop a checklist that will outline the deadlines for report due dates and will give the team a proceeding 5 advance deadline for report completion to comply with the internal report approval process.	November 30, 2019	Everett Blaylock, Senior Accountant David Gunter, Outsourced Controller Dr. Sabrina Lewis Program Manager and Interim Executive Director