

METANOIA
(A Non-Profit Organization)

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2016

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CONTENTS	Page No.
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 <i>Government Auditing Standards</i>	1 - 2
Independent Auditors' Report on Compliance on Each Major Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards as required by Uniform Guidance	3 - 4
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6 - 7
Schedule of Findings, Questioned Cost and Corrective Action Plan	8 - 10
Schedule of Prior Year Audit Findings	11 - 12



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED WITH THE *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Metanoia
North Charleston, South Carolina

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 Metanoia (Metanoia), which comprise the statement of financial position as of June 30, 2016, and the related statement of activities, cash flow and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Metanoia's internal control over financial reporting (internal control) to design 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 Metanoia's internal control. Accordingly, we do not express an opinion on the effectiveness of Metanoia's internal control.

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 identified. However, as described in the accompanying schedule of findings, questioned cost and corrective action plan, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Metanoia's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings, questioned cost and corrective action plan to be material weaknesses, 2016-1 and 2016-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metanoia'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*.

Metanoia's response to findings

Metanoia's response to the findings identified in our audit is described in the accompanying schedule of findings, questioned cost and corrective action plan. Metanoia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Intended purpose

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 entity, Metanoia's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metanoia's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Hubbard Davis CPAs, LLP

Mount Pleasant, South Carolina
November 7, 2016



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE**

To the Board of Directors
Metanoia
North Charleston, South Carolina

Report on compliance for each major federal program

We have audited the compliance of Metanoia with the types of compliance requirements described in the U.S. Office of Management and Budget's (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. Metanoia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings, questioned costs and corrective action plan.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Metanoia'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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (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 Metanoia's compliance with those requirements and performing such other procedures were 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 Metanoia's compliance.

Opinion on Each Major Federal Program

In our opinion, Metanoia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2016.

Report on internal control over compliance

Management of Metanoia 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 Metanoia'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 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 Metanoia'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. Given these limitations, during our audit, we identify two deficiencies in Metanoia's internal control over compliance that we consider to be material weaknesses, 2016-1 and 2016-2. However, other material weaknesses may exist that have not been identified.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Metanoia as of and for the year ended June 30, 2016, and have issued our report thereon dated November 7, 2016, 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 the 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.

Hubbard Davis CPAs, LLP

Mount Pleasant, South Carolina
November 7, 2016

METANOIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
HOME Investment Partnerships Program			
<i>Passed Through City of N. Charleston, South Carolina</i>			
Owner Occupied Repair	14.239	2011-2012 HOME	\$ 133,425
<i>Passed Through Charleston County, South Carolina</i>			
Owner Occupied Repair	14.239	01-HOME-14A-1865-12	278,378
	14.239	01-HOME-14A-1866-13	227,807
	14.239	01-HOME-12-1912-14	172,361
	14.239	Not Available	10,567
<i>Passed Through Charleston County, South Carolina</i>			
Community Housing Development	14.239	01-HOME-12-1912-15	22,368
U.S. Department of Housing and Urban Development			
Community Development Block Grant			
<i>Pass through Charleston County, South Carolina</i>	14.218	01-17D-1878-14	<u>19,000</u>
Total U.S. Department of Housing and Urban Development			<u>863,906</u>
U.S. Department of Health and Human Services			
Direct Program			
Community Services Block Grant	93.570	90EE1118-01-00	<u>689,000</u>
Total U.S. Department of Health and Human Services			<u>689,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,552,906</u>

METANOIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE A - NATURE OF ENTITY

Nature of Activities

Metanoia is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Metanoia is a Community Development Corporation focused on discovering and growing the assets of the southern half of North Charleston.

Metanoia envisions a diverse community of people that are inspired and empowered to make the community better for generations to come; where quality housing and livable wage jobs are accessible to all; where there are academically achieving schools; where businesses, and faith communities benefit the community; where the quality of life includes green space and recreational opportunities; and where Reynolds Avenue is a hub of economic and social activities. We recognize the people of our community are essential to the accomplishment of this vision.

Program descriptions

The following program and supporting services are included in the accompanying financial statements:

Housing Program

The housing program purchases existing vacant properties in the southern-half of North Charleston and either refurbishes them or builds new homes for sale or rent to the public. The program is aimed at stabilizing the housing in the area which will result in neighborhood improvement. Beneficiaries are generally at or below 80% of the Charleston County area median income.

Metanoia works with various partners including the City of North Charleston, Charleston County, the South Carolina Housing Finance and Development Authority and the National Fair Housing Alliance to rehabilitate homes for homeowners in need of repairs. Depending on the source of funding, beneficiaries make at or below 50% or 80% of the Charleston County area median income.

Metanoia operates an extended financial literacy and homeownership class to prepare homeowners by teaching budgeting, banking, credit repair and the responsibilities of home-buying and homeownership.

Youth Leadership Development Academy

The Metanoia Youth Leadership Academy operates year-round out-of-school programming that offers leadership development for students from grades 1-12. This includes daily after school programs for students and a summer Children's Defense Fund Freedom School. The Freedom School operates daily for six weeks in the summer. Students receive academic enhancement and character education in all of Metanoia's programming. The Leadership Academy is a pipeline to develop new leaders for the community.

Economic Development Initiative

In prior years, Metanoia has funded a minority contractor training academy, operated a local farmer's market, and funded a production kitchen for job training in culinary arts – all in an effort to enhance economic development in the community. Metanoia students have started two small businesses which are housed in Metanoia's Youth Entrepreneurship Center (a renovated commercial building in the neighborhood we serve). Metanoia also works closely with the City of North Charleston to encourage the establishment of local businesses that benefit the neighborhood. This includes working with the city to attract a grocery store to the neighborhood and work on the adaptive reuse of a former elementary school.

Community Organizing and Development:

Metanoia organizes the community it serves around issues that are of particular interest to residents. This has included organizing the community to have speed limits reduced and to get a new public elementary school built in the community. All organizing is issue oriented and non-partisan. Metanoia also works with the neighborhoods it serves to enhance their quality of life through a community gardening initiative and the establishment of better public green and recreational space.

METANOIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE A - NATURE OF ENTITY – Continued

Management and General

Management and general includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of Metanoia's program strategy through the Office of the CEO; secure proper administrative functioning of the Board of Directors; maintain competent legal services for the program administration of Metanoia; and manage the financial and budgetary responsibilities of Metanoia.

Fundraising

Provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations.

Federal Program Background

Metanoia receives its federal funding from the U.S. Department of Housing and Urban Development through the City of North Charleston and Charleston County, South Carolina sub-recipient grants in the HOME Investment Partnership and Community Development Block Grant programs. Metanoia also received direct assistance from the U.S. Department of Health and Human Services Community Economic Development Grant.

The funding from the City of North Charleston and Charleston County, South Carolina, flows from the U.S. Department of Housing and Urban Development (HUD) and supports the Owner Occupied Rehabilitation (OOR) Program and Community Housing Development. The OOR program rehabilitates homes for homeowners in need of repairs who make at or below 50% of the Charleston County area median income. The Community Housing Development grant allows for the construction of two new 3-bedroom rental houses for low-income households.

The funding from the City of North Charleston and Charleston County, South Carolina, flows from the U.S. Department of Housing and Urban Development (HUD) and supports the Community Development Block Grant (CDBG) Program. The CDBG program purchases existing vacant properties in the southern-half of North Charleston, South Carolina and either refurbishes them or builds new homes for sale or rent to the public. The program is aimed at stabilizing the housing in the area which will result in neighborhood improvement.

The funding from the U.S. Department of Health and Human Services (HHS) Community Economic Development grant is a discretionary grant to be used for business expansion for job creation in low-income or high unemployment areas.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Metanoia and is presented on the accrual basis of accounting. The information in the 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 Metanoia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Metanoia.

Federal Awards Expended for Loans – CFDA # 93.570

During the year ending June 30, 2016 Metanoia made a loan as part of the HHS Community Economic Development Grant. Of the \$689,000 in federal expenditures made under the HHS Community Economic Development Grant, \$615,000 was a loan made for job creation. At June 30, 2016 the balance of the outstanding loan payable to Metanoia, that was made as part of the HHS Community Economic Development Grant is \$556,209.

METANOIA
SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2016

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:
 Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs? Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (Uniform Guidance)? Yes No

Identification of major programs:

CFDA

<u>Number</u>	<u>Name of Federal Program or Cluster</u>
14.239	U.S. Department of Housing and Urban Development HOME Investment Partnerships Program
93.570	U.S. Department of Health and Human Services Community Services Block Grant

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

Auditee qualified as low-risk auditee? Yes No

METANOIA
SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2016

SECTION II – FINANCIAL STATEMENT FINDING & FEDERAL AWARD FINDING

FINDING 2016 – 1 (Material Weakness)

Segregation of Duties

Condition:

As noted in the prior year, it was observed that some control duties have not been segregated. We also observed the monitoring phase of the control cycle was either not being performed or was not being documented consistently.

Criteria:

Certain duties should be performed by separate individuals to reduce the risk of fraud or concealment of errors, and no one individual should have responsibility for all aspects of a transaction. In general, the following transaction-related duties are considered incompatible and should be performed by separate individuals:

- Initiating
- Approving
- Record keeping
- Custody of an asset
- Reconciling the related accounts

Cause:

The Controller performed more than one duty in multiple transactions cycles and monitoring is not being documented. The review of bank reconciliations is not always properly documented nor is the review and approval of certain vendor invoices.

Questioned Cost: None

Effect:

Metanoia lacks segregation of duties within their internal control policies and procedures, due to their small administrative staff which may have resulted in transactions recorded and reported inaccurately. Bank reconciliations and vendor invoices may have been monitored by the Board Treasurer and the check signers; but the monitoring was not documented.

Recommendation/Comment:

The Board of Directors should work with the Executive Director, Controller and Director of Housing to design more segregated internal control policies and related monitoring activities and methods to document monitoring, such as initialing the bank reconciliation after review and initialing invoice approval.

Views of Responsible Officials and Planned Corrective Action:

Metanoia has evaluated the cost vs. benefit of establishing a segregated internal control system and determined that while some key changes will be made to improve the system, the non-profit resources are too limited to allow for a fully segregated internal control system. Metanoia will design a system to document the currently performed monitoring.

METANOIA
SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2016

SECTION II – FINANCIAL STATEMENT FINDING & FEDERAL AWARD FINDING

FINDING 2016 – 2 (Material Weakness)

Documentation – Filing and Retention

Condition:

Several instances of documents maintained within the e-mail system and documents not retained for the permanent files were noted during the testing.

Criteria:

HUD requires certain documentation be retained for seven years for each project either electronically or in a paper file. Metanoia was unable to timely, quickly provide requested documentation as it was filed in a disorganized manner. Some final executed documents were not provided by Metanoia that were secured by the Grantor. Examples of documents that were not filed in the project binder were the following:

- Lead-based paint clearance reports
- Proper documentation showing contractors have the proper certifications to handle lead-based paint renovations.
- Proof of insurance for contractors
- Journal entry support was not kept in a central location and proper back-up documentation was not always filed

Cause:

Metanoia's level of OOR projects has grown quickly and the Director of Housing is having difficulty with the volume of activity. Property Manager uses his Outlook e-mail system as a filing cabinet instead of saving attachments to an electronic project folder.

Questioned Cost: None

Effect:

Metanoia could not provide documentation timely.

Recommendation/Comment:

Metanoia management team should design a project information system including listing of what to retain, where to file, when to file and who will monitor. Metanoia should also verify contractors are certified in lead-based paint renovations and retain a copy of those certifications on file.

Views of Responsible Officials and Planned Corrective Action:

Metanoia agrees with the finding and has started to design a document retention system that will satisfy both ongoing project needs and grantor retention requirements in both electronic and paper formats. Metanoia will indicate in the bid solicitation that all contractors bidding on the project must have valid credentials and certifications for lead-based paint as approved by the EPA. Metanoia will also require a copy of the lead-based paint certificate to be filed.

METANOIA
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

FINDING 2015 – 1 (Material Weakness)

Segregation of Duties

Condition:

It was observed that some control duties have not been segregated. We also observed the monitoring phase of the control cycle was either not being performed or was not being documented consistently.

Criteria:

Certain duties should be performed by separate individuals to reduce the risk of fraud or concealment of errors, and no one individual should have responsibility for all aspects of a transaction. In general, the following transaction-related duties are considered incompatible and should be performed by separate individuals:

- Initiating
- Approving
- Record keeping
- Custody of an asset
- Reconciling the related accounts

Status:

The lack of segregation of duties continues to be an issue in part due to their small administrative staff and lack of monitoring at different stages of the transaction cycle. This finding is repeated in the current year.

FINDING 2015 – 2 (Material Weakness)

Capitalization Policy

Condition:

There were some instances when capital items were not identified and recorded as fixed assets, but were expensed.

Criteria:

Metanoia has a capitalization policy with a \$500 threshold for capital items.

Status:

Metanoia's Board of Directors adopted a new capitalization policy and set the threshold at \$2,500.

METANOIA
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

FINDING 2015 – 3 (Material Weakness)

Documentation – Filing and Retention

Condition:

Several instances of documents maintained within the e-mail system and documents not retained for the permanent files were noted during the testing.

Criteria:

HUD requires certain documentation be retained for seven years for each project either electronically or in a paper file. Metanoia was unable to timely, quickly provide requested documentation as it was filed in a disorganized manner. Some final executed documents were not provided by Metanoia that were secured by the Grantor. Examples of documents that were not filed in the project binder were the following:

- Two Income Eligibility forms signed by the homeowner
- One independent OOR property repair assessment
- Environmental Studies
- Second Mortgages

Status:

Metanoia has implemented policies and procedures to assure that proper documentation is maintained on file however the issue was not fully resolved during the year ending June 30, 2016.

FINDING 2015 – 4 (Material Weakness)

Cash Management:

Condition:

Several instances of credit card charges not being included in the request for reimbursement and miscoded between OOR projects were identified.

Criteria:

Metanoia invoices the grantor by project on a monthly basis and includes all project related disbursements not previously reimbursed. Credit cards are used infrequently for OOR construction projects. Temporary POD storage is paid for by credit card.

Status:

Metanoia started to get the OOR program Pod storage and hotel bills monthly and make timely requests for reimbursements.