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INDEPENDENT AUDITOR'S REPORT

Page 1 of 3

Board of Directors
SHIFT NC
Durham, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of SHIFT NC (a North Carolina nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statement of activities and changes in net assets, cash flows, and functional expenses 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 qualified audit opinion.

**Basis for Qualified Opinion**

SHIFT NC requested federal drawdowns for payroll and indirect costs based on budgeted salaries and benefits. Time records by grant were not maintained for January through June of 2018. We were unable to obtain sufficient appropriate audit evidence about actual payroll costs incurred for the federal projects for the year ended June 30, 2018, due to lack of time records. Consequently, we were unable to determine whether any adjustments to government grants revenue and refundable grants payable were necessary.

**Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of SHIFT NC, as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended, in conformity 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 and state 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, except for the effects on the supplementary information of the matter described in the Basis for Qualified Opinion paragraph, such 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 March 26, 2019, on our consideration of SHIFT NC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 SHIFT NC's internal control over financial reporting and compliance.

Chapel Hill, North Carolina
March 26, 2019
## ASSETS

### CURRENT ASSETS:
- Cash and equivalents: $453,759
- Grants and contracts receivable: 240,113
- Other receivables: 9,805
- Certificates of deposit: 121,121
- Prepaid expenses: 25,270

**TOTAL CURRENT ASSETS:** $850,068

### PROPERTY AND EQUIPMENT:
- Office furniture and fixtures: 19,255
- Computer equipment: 98,298
- Less accumulated depreciation: (50,899)

**NET PROPERTY AND EQUIPMENT:** 66,654

### NON-CURRENT ASSETS:
- Grants and contracts receivable, net: 28,060
- Security deposits: 7,502

**TOTAL NON-CURRENT ASSETS:** 35,562

**TOTAL ASSETS:** $952,284

## LIABILITIES AND NET ASSETS

### CURRENT LIABILITIES:
- Accounts payable: $74,338
- Accrued payroll and relates liabilities: 89,782
- Deferred rent: 69,288
- Refundable grant advances: 84,688
- Deferred revenue: 94,724

**TOTAL CURRENT LIABILITIES:** 412,820

### NET ASSETS:
- Unrestricted: 241,292
- Temporarily restricted: 298,172

**TOTAL NET ASSETS:** 539,464

**TOTAL LIABILITIES AND NET ASSETS:** $952,284

The accompanying Notes to Financial Statements are an integral part of these financial statements.
## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2018

### SUPPORT:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>2018 Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government grants</td>
<td>$89,220</td>
<td>$3,024,769</td>
<td>$3,113,989</td>
</tr>
<tr>
<td>Foundation grants</td>
<td>46,020</td>
<td>265,491</td>
<td>311,511</td>
</tr>
<tr>
<td>Contributions</td>
<td>13,417</td>
<td>-</td>
<td>13,417</td>
</tr>
<tr>
<td><strong>TOTAL SUPPORT</strong></td>
<td>148,657</td>
<td>3,290,260</td>
<td>3,438,917</td>
</tr>
</tbody>
</table>

### REVENUE:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Conference revenue</td>
<td>59,021</td>
<td>-</td>
<td>59,021</td>
</tr>
<tr>
<td>Event revenue</td>
<td>23,405</td>
<td>-</td>
<td>23,405</td>
</tr>
<tr>
<td>Program service fees</td>
<td>60,357</td>
<td>-</td>
<td>60,357</td>
</tr>
<tr>
<td>Contract revenue</td>
<td>4,416</td>
<td>-</td>
<td>4,416</td>
</tr>
<tr>
<td>Other revenue</td>
<td>3,414</td>
<td>-</td>
<td>3,414</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>150,613</td>
<td>-</td>
<td>150,613</td>
</tr>
</tbody>
</table>

Net assets released from restrictions: $3,466,954

**TOTAL SUPPORT AND REVENUE**

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>2018 Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,766,224</td>
<td>(176,694)</td>
<td>3,589,530</td>
</tr>
</tbody>
</table>

### EXPENSES:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>2018 Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program</td>
<td>2,996,601</td>
<td>-</td>
<td>2,996,601</td>
</tr>
<tr>
<td>Management and general</td>
<td>595,165</td>
<td>-</td>
<td>595,165</td>
</tr>
<tr>
<td>Fundraising</td>
<td>42,150</td>
<td>-</td>
<td>42,150</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>3,633,916</td>
<td>-</td>
<td>3,633,916</td>
</tr>
</tbody>
</table>

### CHANGES IN NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>2018 Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>132,308</td>
<td>(176,694)</td>
<td>(44,386)</td>
</tr>
</tbody>
</table>

### NET ASSETS - BEGINNING OF YEAR (AS RESTATED)

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>2018 Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>108,984</td>
<td>474,866</td>
<td>583,850</td>
</tr>
</tbody>
</table>

### NET ASSETS - END OF YEAR

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>2018 Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$241,292</td>
<td>$298,172</td>
<td>$539,464</td>
</tr>
</tbody>
</table>

The accompanying Notes to Financial Statements are an integral part of these financial statements.
CASH FLOWS FROM OPERATING ACTIVITIES:
Changes in net assets $ (44,386)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:
Depreciation 17,509
Changes in assets and liabilities:
Grants and contracts receivable, net 206,693
Other receivables (6,874)
Prepaid expenses (15,481)
Accounts payable (207,341)
Accrued payroll and relates liabilities 10,385
Deferred rent 10,313
Refundable grant advances 36,124
Deferred revenue 46,936

NET CASH PROVIDED BY OPERATING ACTIVITIES 53,878

CASH FLOWS FROM INVESTING ACTIVITIES:
Purchase of certificates of deposit (120,000)
Purchases of office furniture and equipment (32,175)

NET CASH USED IN INVESTING ACTIVITIES (152,175)

NET DECREASE IN CASH AND EQUIVALENTS (98,297)

CASH AND EQUIVALENTS - BEGINNING OF YEAR 552,056

CASH AND EQUIVALENTS - END OF YEAR $ 453,759

The accompanying Notes to Financial Statements are an integral part of these financial statements.
### STATEMENT OF FUNCTIONAL EXPENSES

**For the Year Ended June 30, 2018**

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Management and General</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>$1,221,300</td>
<td>$221,013</td>
<td>$7,929</td>
<td>$1,450,242</td>
</tr>
<tr>
<td>Program expenses</td>
<td>869,739</td>
<td>-</td>
<td>-</td>
<td>869,739</td>
</tr>
<tr>
<td>Benefits</td>
<td>339,602</td>
<td>43,089</td>
<td>553</td>
<td>383,244</td>
</tr>
<tr>
<td>Consultants and contract labor</td>
<td>107,488</td>
<td>126,239</td>
<td>21,806</td>
<td>255,533</td>
</tr>
<tr>
<td>Occupancy</td>
<td>52,896</td>
<td>129,812</td>
<td>1,608</td>
<td>184,316</td>
</tr>
<tr>
<td>Travel</td>
<td>94,210</td>
<td>5,488</td>
<td>871</td>
<td>100,569</td>
</tr>
<tr>
<td>Event</td>
<td>96,270</td>
<td>757</td>
<td>1,195</td>
<td>98,222</td>
</tr>
<tr>
<td>Communications</td>
<td>92,831</td>
<td>978</td>
<td>2,522</td>
<td>96,331</td>
</tr>
<tr>
<td>Conferences and meetings</td>
<td>64,057</td>
<td>640</td>
<td>528</td>
<td>65,225</td>
</tr>
<tr>
<td>Supplies</td>
<td>13,285</td>
<td>24,092</td>
<td>2,278</td>
<td>39,655</td>
</tr>
<tr>
<td>Professional fees</td>
<td>4,602</td>
<td>13,061</td>
<td>-</td>
<td>17,663</td>
</tr>
<tr>
<td>Postage and printing</td>
<td>13,879</td>
<td>2,910</td>
<td>823</td>
<td>17,612</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>17,509</td>
<td>-</td>
<td>17,509</td>
</tr>
<tr>
<td>Training supplies</td>
<td>16,076</td>
<td>187</td>
<td>-</td>
<td>16,263</td>
</tr>
<tr>
<td>Other expenses</td>
<td>6,014</td>
<td>6,422</td>
<td>2,022</td>
<td>14,458</td>
</tr>
<tr>
<td>Advertising</td>
<td>4,352</td>
<td>100</td>
<td>15</td>
<td>4,467</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>2,868</td>
<td>-</td>
<td>2,868</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$2,996,601</strong></td>
<td><strong>$595,165</strong></td>
<td><strong>$42,150</strong></td>
<td><strong>$3,633,916</strong></td>
</tr>
</tbody>
</table>
SHIFT NC
NOTES TO FINANCIAL STATEMENTS

Page 1 of 5

NATURE OF ACTIVITIES

SHIFT NC (the “Organization”) is a nonprofit organization dedicated to leading North Carolina to improve adolescent and young adult sexual health. During 2015, the Organization changed its name from Adolescent Pregnancy Prevention Campaign of North Carolina to SHIFT NC.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting.

The Organization’s financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which require the use of certain estimates made by the Organization’s management. Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

B. Cash and Equivalents.

Cash and equivalents consist of monies on deposit at financial institutions, and other highly liquid investments with maturities of three months or less. At times, the Organization places deposits with high-quality financial institutions that may be in excess of federally insured amounts. The Organization has not experienced any financial loss related to such deposits.

C. Grants, Contracts, and Other Receivables.

Grants, contracts, and other receivables are recorded at net realizable value. The Organization provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred in collection. The allowance is based on historical collection experience and a review by management of the current status of the existing receivables. As of June 30, 2018, all receivables were deemed collectible by management.

D. Property and Equipment.

Property and equipment are stated at cost for purchased assets and at market value on the date of the gift for donated assets. Property and equipment are capitalized if the life is expected to be greater than one year and if the cost exceeds $1,000. Depreciation is calculated using the straight-line method over estimated lives of three to seven years for office furniture and fixtures and computer equipment.
E. Employee Benefits.

Employees of the Organization vest in vacation pay earned but unused. A maximum of 180 hours can be carried over to the next fiscal year. The aggregate amount of vacation pay due has been accrued on the statement of financial position.

All employees are eligible to participate in a Simple IRA plan, which the Organization matches up to 3%. The employer contribution expense for the year ended June 30, 2018 is $39,275. The matching payment is made at the discretion of the board and is made yearly each December.

F. Revenue Recognition.

Revenue from grants and contracts which are deemed to be exchange transactions are recognized as unrestricted revenue at the time the reimbursable expenses are incurred. Deferred revenue from exchange transactions results when cash receipts exceed revenue recognized. Revenue from contracts and grants which are deemed to be unconditional contributions are recognized when the grantor makes a promise to give to the Organization. Contributions that are restricted by the grantor are reported as increases in temporarily restricted net assets.

G. Advertising Expenses.

Advertising costs are expensed as incurred and totaled $4,467 for the year ended June 30, 2018.

H. Net Assets.

Unrestricted - Resources of the Organization that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations, undesignated gifts, and investments in property and equipment.

Temporarily Restricted - Resources that carry a donor-imposed restriction that permits the Organization to use or expend the donated assets for a specific purpose. The restrictions can be satisfied by the passage of time or by actions of the Organization.

Permanently Restricted - Resources that carry a donor-imposed restriction that stipulates donated assets be maintained in perpetuity but may permit the Organization to use or expend part or all of the income derived from the donated assets.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Income Tax Status.

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has is classified as an organization that is other than a private foundation by the Internal Revenue Service (“IRS”). If applicable, the Organization reports interest and penalties related to unrecognized tax positions as miscellaneous expenses.

J. Estimates.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable at June 30, 2018, consist of the following:

<table>
<thead>
<tr>
<th>Receivable in less than one year</th>
<th>240,113</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivable in one to five years</td>
<td>30,000</td>
</tr>
</tbody>
</table>
| **Total gross grants and contracts receivable** | **270,113** | 2018
| Discount at a rate of 3.4%      | (1,940) |
| **Net present value of grants and contracts receivable** | **$268,173** |

OPERATING LEASES

Effective April 2016, the Organization entered into an amended agreement for office space to increase the square feet of office space leased to 7,790. Under the terms of the amended agreement, the monthly rental rate is $13,430 commencing June 2017, escalating 3% on each annual anniversary of the lease. Rent expense relating to the lease totaled $159,971, for the year ended June 30, 2018.

Minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$166,406</td>
</tr>
<tr>
<td>2020</td>
<td>171,398</td>
</tr>
<tr>
<td>2021</td>
<td>176,540</td>
</tr>
<tr>
<td>2022</td>
<td>181,836</td>
</tr>
<tr>
<td>Thereafter</td>
<td>561,886</td>
</tr>
<tr>
<td><strong>Total minimum lease payments</strong></td>
<td><strong>$1,258,066</strong></td>
</tr>
</tbody>
</table>
CONTINGENCIES

The Organization is the recipient of federal, state, and private foundation grants for specific purposes that are subject to review and final audit by the grantor agencies. Such review and audit could lead to requests for reimbursement to the grantor agencies for expenditures disallowed under the compliance terms of the grant.

The Organization has determined that federal funds in excess of expenditures incurred were drawn down during the year ended June 30, 2018. The Organization requested federal drawdowns based on budgeted payroll, utilized the incorrect rate for indirect cost calculations, and paid funding to grant subrecipients in advance. Accordingly, refundable grant advances totaling $84,688 has been recorded in the statement of financial position at June 30, 2018. A final determination has not been made concerning the Organization's ultimate obligation in these matters, and it is not possible to estimate whether an additional liability will need to be recorded in the future.

DONATED SERVICES

The Organization recognizes donated services that create or enhance non-financial assets or that require specialized skills, and would typically need to be purchased if not provided by donation. No services meeting these requirements for recognition in the financial statements were received during the year ended June 30, 2018. However, a number of persons have donated a significant amount of time and services towards program development and implementation, not meeting the requirements for recognition in the financial statements.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

CONCENTRATIONS

Approximately 78% of total support and revenue are from two funders for the year ending June 30, 2018. Approximately 44% of total grants and contracts receivable is from one funder at June 30, 2018. A significant decline in funding from these sources could have a detrimental effect on the operations of the Organization.
TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the year ended June 30, 2018 consist of:

<table>
<thead>
<tr>
<th>Purpose restricted:</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Point Access</td>
<td>$ 118,847</td>
</tr>
<tr>
<td>Laughing Gull</td>
<td>88,059</td>
</tr>
<tr>
<td>Cone Health</td>
<td>34,486</td>
</tr>
<tr>
<td>NC State Board of Education</td>
<td>31,006</td>
</tr>
<tr>
<td>Center for Disease Control</td>
<td>20,774</td>
</tr>
<tr>
<td><strong>Total purpose restricted</strong></td>
<td><strong>293,172</strong></td>
</tr>
<tr>
<td>Time restricted:</td>
<td><strong>5,000</strong></td>
</tr>
<tr>
<td><strong>Total temporarily restricted net assets</strong></td>
<td><strong>$ 298,172</strong></td>
</tr>
</tbody>
</table>

RESTATEMENT OF NET ASSETS

During the year ended June 30, 2018, management noted that several transactions were not properly reflected in the financial statements. The following balances were restated at June 30, 2017 to properly reflect the transactions:

<table>
<thead>
<tr>
<th>Originally Reported</th>
<th>Adjustments</th>
<th>Restated Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and contracts receivable, net</td>
<td>$ 239,956</td>
<td>$ 234,910</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>$ 112,274</td>
<td>$ (12,300)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$ 305,139</td>
<td>$ (23,460)</td>
</tr>
<tr>
<td>Refundable grant advances</td>
<td>$ -</td>
<td>$ 48,564</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>$ -</td>
<td>$ 47,788</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>$ -</td>
<td>$ 58,975</td>
</tr>
<tr>
<td><strong>Total support and revenue</strong></td>
<td>$ 3,702,192</td>
<td>$ 116,596</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$ 4,251,601</td>
<td>$ 47,815</td>
</tr>
<tr>
<td>Unrestricted net assets</td>
<td>$ 253,151</td>
<td>$ (144,167)</td>
</tr>
<tr>
<td>Temporarily restricted net assets</td>
<td>$ 239,956</td>
<td>$ 234,910</td>
</tr>
</tbody>
</table>

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through March 26, 2019, which was the date that the financial statements were available to be issued. Management did not identify any events other than noted above that occurred subsequent to year-end that require disclosure in the financial statements.
SHIFT NC

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2018

<table>
<thead>
<tr>
<th>Federal/State Grantor/ Pass-through Grantor/ CFDA Program Title</th>
<th>Federal Agency or Pass-through Number</th>
<th>Total Expenditures</th>
<th>Expenditures to Subrecipients</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FEDERAL EXPENDITURES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Department of Health and Human Services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centers for Disease Control and Prevention</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Together Now: Making Health and Referral Systems</td>
<td>93.946 5 NU58DP006141-03-00</td>
<td>$537,339</td>
<td>$122,315</td>
</tr>
<tr>
<td>Work for Young People</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of Adolescent Health</td>
<td>93.297 5 TP1AH000131-03-00</td>
<td>687,639</td>
<td>195,300</td>
</tr>
<tr>
<td>Every Teen Counts: Working with Out-of-home and Justice</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Involved Youth (Tier 1A)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Carolina Youth Connected: A Surround Sound Approach</td>
<td>93.297 5 TP1AH000125-03-00</td>
<td>1,562,197</td>
<td>476,872</td>
</tr>
<tr>
<td>to Teen Pregnancy Prevention (Tier 1B)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL FEDERAL EXPENDITURES</td>
<td>2,787,175</td>
<td>794,487</td>
<td></td>
</tr>
</tbody>
</table>

| **STATE EXPENDITURES:**                                      |                                      |                    |                              |
| N. C. Department of Public Instruction, Division of Public Health | 00302-9 131,349                      |                    |                              |
| Healthy Schools                                              |                                      |                    |                              |
| N. C. Department of Social Services                          | 1600135133 195,465                   |                    |                              |
| Teen Pregnancy Prevention Initiative                         |                                      |                    |                              |
| TOTAL STATE EXPENDITURES                                     | 326,814                              |                    |                              |
| TOTAL FEDERAL AND STATE EXPENDITURES                         | $3,113,989                           | $794,487           |                              |

NOTES TO SCHEDULE OF FEDERAL AND STATE AWARDS

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state grant activity of SHIFT NC under programs of the federal and state governments for the year ended June 30, 2018. The information in this Schedule is presented in accordance with requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). 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. Because the Schedule presents only a selected portion of the operations of SHIFT NC, it is not intended and does not present the financial position, changes in net assets, or cash flows of SHIFT NC.

SHIFT NC has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.
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

Page 1 of 2

Board of Directors
SHIFT NC
Durham, North 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 SHIFT NC (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SHIFT NC’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.

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 and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned as items 2018-001 and 2018-002 to be material weaknesses.
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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-003 and 2018-004 to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SHIFT NC’s financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-005, 2018-006, 2018-007, 2018-009, and 2018-010.

**Management’s Response to Findings**

SHIFT NC’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. SHIFT NC’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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.

Chapel Hill, North Carolina
March 26, 2019
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
SHIFT NC
Durham, North Carolina

Report on Compliance for Each Major Federal Program

We have audited SHIFT NC’s compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of SHIFT NC’s major federal programs for the year ended June 30, 2018. SHIFT NC’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 SHIFT NC’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 Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SHIFT NC’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 SHIFT NC’s compliance.

_Basis for Qualified Opinion on Teenage Pregnancy Prevention Program_

As described in the accompanying schedule of findings and questioned costs, SHIFT NC did not comply with requirements regarding CFDA 93.297 Teenage Pregnancy Prevention Program as described in findings 2018-005 and 2018-006 for Allowable Costs, 2018-007 for Cash Management, and 2018-009 for Reporting. Compliance with such requirements is necessary, in our opinion, for SHIFT NC to comply with requirements applicable to that program.

_Qualified Opinion on Teenage Pregnancy Prevention Program_

In our opinion, except for the noncompliance described in the Basis for Opinion paragraph, SHIFT NC, 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 program for the year ended June 30, 2018.

_Other Matters_

The results of our auditing procedures disclosed another instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-010. Our opinion on the major federal program is not modified with respect to this matter.

_Management's Response_

SHIFT NC’s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. SHIFT NC’s responses were 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 SHIFT NC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered SHIFT NC’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 SHIFT NC’s internal control over compliance.
Our consideration of the 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. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 a 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. We consider the deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-012, to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-008, 2018-011, and 2018-013 to be significant deficiencies.

**Purpose of this Report**

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.

Chapel Hill, North Carolina
March 26, 2019
A. Summary of Auditor’s Results

1. The auditor's report expresses a qualified opinion on the financial statements of SHIFT NC.

2. Material weaknesses and significant deficiencies relating to the audit of the financial statements are reported in the "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."

3. Instances of noncompliance, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

4. Material weaknesses and significant deficiencies relating to the audit of the major federal award programs are reported in the "Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance."

5. The auditor's report on compliance for the major federal award program for SHIFT NC, expresses a modified opinion on the major federal program.

6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.

7. The Teenage Pregnancy Prevention Program (CFDA 93.297) was tested as a major program.

8. The threshold for distinguishing Type A and B programs was $750,000.

9. SHIFT NC, qualified as a low-risk auditee.
B. Findings - Financial Statements Audit


*Condition and Criteria:* During the course of the audit, we noted lack of segregation of duties as it relates to cash receipts, cash disbursements, payroll, and journal entries. There should be segregation of duties over the physical access to assets and the ability to record and track those assets in the accounting system.

*Prior Year Audit Finding:* N/A

*Cause and Effect:* Lack of segregation of duties has resulted due to the limited personnel and several employee transitions during the year. This increases the Organization's risk to misappropriation of assets and could result in intentional fraud or unintentional errors that could occur and go undetected.

*Recommendation:* We recommend the Organization review all financial internal control policies and procedures to ensure proper segregation of duties and minimize the Organization's risk to misappropriation of assets. Some specific policies and procedures that should be modified are as follows:

- The mail should be opened by two individuals, the Administrative Assistant and another staff person. Any checks received should be recorded in a daily cash log sheet and immediately endorsed "For Deposit Only". The daily cash log should be agreed to the deposit totals during the monthly bank reconciliation review process.
- The blank check stock should be maintained under lock and key by a member of management that does not have check signing authority and access to the accounting system.
- All disbursements and account codings should be reviewed and approved by a member of management knowledgeable of the Organization's budget, grant agreements, and federal procurement guidelines. The approval should be evidenced by a signature and date of the review.
- Monthly bank reconciliations prepared by the CFO should be reviewed by the CEO or another member of management for accuracy, completeness, and reasonableness in a timely manner.
- Recurring and nonrecurring journal entries prepared by the CFO should be reviewed and agreed to supporting documentation by the CEO or another member of management on a monthly or quarterly basis.
- Payroll reports processed by the CFO should be reviewed by the CEO and agreed to payroll change reports and the general ledger monthly.

The addition and modification of these steps will help mitigate the risk of misappropriation of assets and fraudulent reporting as it relates to lack of segregation of duties.

*Management’s Response:* Management has hired a consultant to review the financial reporting processes and recommend procedures which will ensure segregation of duties in the reporting processes including those highlighted in the audit report.

2018-002 Reconciliation of Financial Spreadsheets to Accounting System.

*Condition and Criteria:* The Organization maintains a spreadsheet to track grant expenditures and calculate federal cash drawdowns. This spreadsheet is not reconciled to the general ledger to ensure accuracy and completeness.

*Prior Year Audit Finding:* N/A

*Cause and Effect:* The Organization utilized a spreadsheet during FY18 to track expenditures for several grant projects. The spreadsheet was accessible to several staff to edit and make changes. On several occasions throughout the year, edits were made to the spreadsheet after calculations for grant cash drawdowns were determined and made. In addition, the spreadsheet was not reconciled to the accounting system resulting in inaccurate grant funding and reporting to funders.

*Recommendation:* We recommend the Organization utilize the accounting system to track all financial activity and provide the supporting documentation for all official external reporting (cash drawdowns, federal financial reports, etc.) on the information provided from the system. All general ledger accounts should be reconciled monthly to ensure the accuracy and completeness of information and to identify and correct any errors on a timely basis.

*Management’s Response:* Management is working with the consultant to put in place a budget monitoring and tracking system based on financial information in Quickbooks. The CFO will ensure financial information in the budget tracking system matches with details in Quickbooks each month.

2018-003 Maintain Supporting Documentation for All Transactions.

*Condition and Criteria:* There were 5 out of 103 (60 federal, 43 nonfederal) instances identified during the audit where inadequate or no support was maintained for expenses, including federal expenditures and allocations of expenses among projects. Costs should be supported by appropriate documentation, such as approved disbursement authorization, vendor invoices, and canceled checks. Costs should also be correctly charged as to account, amount, and period in the accounting system.

*Prior Year Audit Finding:* N/A

*Cause and Effect:* Without the proper support for expenses, the Organization is unable to substantiate costs incurred by the Organization and could result in fraudulent or inaccurate transactions in the Organization’s financial statements. Additionally, reclassifying journal entries were used to allocate expenses among projects or departments with no supporting documentation for the allocation. This could result in programs being charged inaccurate amounts of indirect costs without the proper support for the allocations.
2018-003 Maintain Supporting Documentation for All Transactions (Continued).

*Recommendation:* We recommend the Organization maintain supporting documentation for expenses to ensure that all disbursements are for the business purpose of the Organization and to comply with the federal allowable costs requirements. For allocations of expense, we recommend the Organization develop a policy to use a worksheet to allocate expenses to projects. This spreadsheet can then be attached to the supporting invoice. The spreadsheet should include the departments/projects that share the expense, the allocation methodology, and contain formula calculations to reduce errors. Additionally, we recommend costs be allocated among projects when the expense is initially entered into the accounting system to reduce the risk of human error rather than allocating expenses with reclassifying entries.

*Management’s Response:* Management is revisiting our financial policy to formalize a list of supporting documents required for each type of financial transaction. The CFO will ensure all vouchers are adequately supported and shows the basis of allocation to various cost-centers before approving the transactions.

2018-004 Timely Remittance of Employee Retirement Plan Contributions.

*Condition and Criteria:* Employers must deposit employee retirement plan deferrals as soon as administratively possible after funds are withheld from employee wages. The deposit should never occur later than the 15th business day of the month after the contributions were withheld. As of June 30, 2018, the May and June employee deferrals had not been deposited into the employees' retirement accounts.

*Prior Year Audit Finding:* N/A

*Cause and Effect:* Failure to comply with the retirement plans requirements could result in significant penalties and excise tax fines to the Organization.

*Recommendation:* We recommend the Organization review all requirements relating to the employee retirement plan and modify any necessary internal policies and procedures to ensure compliance with all laws and regulations. Any untimely deposits should be made immediately, and management should consider participating in the Voluntary Fiduciary Correction Program if deemed necessary.

*Management’s Response:* Reminders have been created in the CFO’s calendar to ensure such payments are deposited within the stipulated deadlines. The CEO and CFO will review monthly a checklist showing dates when payments such as employee retirement plan contributions with a mandatory due date were actually paid.
C. Findings and Questioned Costs - Major Federal Award Programs Audit

2018-005 Allowable Costs: Allocation of Payroll Expense.

*Federal Program Information:* Teenage Pregnancy Prevention Program (CFDA – 93.297)

*Condition and Criteria:* Federal compliance requirements state payroll expenses should be allocated to various programs based on actual hours worked in each program. Payroll charges should be supported by personnel activity reports such as time and attendance records or salary distribution reporting. For fiscal year 2018, SHIFT NC recorded payroll based on budgeted amounts and allocated to programs based on grant requirements. The budget was prepared at the beginning of the year and was not updated at any point during the year for actual hours worked.

*Prior Year Audit Finding:* N/A

*Cause and Effect:* For the second half of the year, individuals working on federal projects for Shift NC did not track their timesheets by project. When time was tracked by project, those hours were not used to calculate an allocation of the employee’s salary costs to the project. Accurate expenses are not tracked, thus accurate costs are not being reported to funding agencies.

*Context:* The finding represents a systemic problem. The sample was a statistically valid sample.

*Questioned Costs:* Not able to be determined.

*Recommendation:* We recommend the Organization begin tracking time at a more detailed level and using the information to properly allocate salary and related costs to the projects.

*Management’s Response:* Management has made changes to the time and attendance reporting system which requires employees to report actual time spent on various project activities. The CFO will ensure labor costs charged to various projects are supported by approved time sheets showing actual time spent by employees on various project activities during a pay-period.

2018-006 Allowable Costs: Use appropriate indirect cost calculation.

*Federal Program Information:* Teenage Pregnancy Prevention Program (CFDA – 93.297)

*Condition and Criteria:* When a final indirect cost rate has been negotiated, appropriate billing adjustments for each federal program should be made based on the final negotiated rate. The Organization used the indirect cost rate of the prior period and budgeted salary costs to calculate indirect costs.

*Prior Year Audit Finding:* N/A
2018-006 Allowable Costs: Use appropriate indirect cost calculation (Continued).

*Cause and Effect:* The Organization used budgeted amounts for recording payroll expense to specific federal projects rather than allocating costs based on time and attendance records and salary distribution reports. When the budget for FY18 was created, the Organization had not received the final negotiated FY18 indirect cost rate of 31.44% and continued to use the prior year indirect rate of 36.35%. This resulted in an overstatement of indirect costs recorded and requested from the federal granting agency.

*Context:* The actual overstatement of indirect costs cannot be calculated. The audit finding represents a systemic problem. The sample was statistically valid.

*Questioned Costs:* Not able to be determined.

*Recommendation:* We recommend that SHIFT NC use actual costs incurred rather than budgeted costs to calculate indirect costs. Additionally, once the final indirect cost rate has been negotiated, proper adjustments should be made to the project’s billings. Additionally, costs should be calculated per the final negotiated rate agreement.

*Management’s Response:* Management is taking action to determine and adjust the amount of indirect costs incorrectly charged to the various grants.

2018-007 Cash Management: Improve Processes over Cash Management.

*Federal Program Information:* Teenage Pregnancy Prevention Program (CFDA – 93.297)

*Condition and Criteria:* The time between drawing down and disbursing federal funds should be minimized. When entities are funded under the reimbursement method, the entity should pay for the costs for which reimbursement will be requested prior to the date of the reimbursement request. For programs where a pass-through entity passes federal funds to subrecipients, the pass-through entity should implement procedures to ensure the time elapsing between the transfer of federal funds to the subrecipient and the disbursement of such funds for program purposes by the subrecipient is minimized. Federal cash drawdowns consistently exceed actual expenditures resulting in refundable grant advances at June 30, 2018. In addition, unspent federal cash that was paid to subrecipients in advance is being held by the subrecipients.

*Prior Year Audit Finding:* N/A

*Cause and Effect:* The Organization requested drawdowns based on budgeted payroll and indirect costs and paid funding to subrecipients in advance. Noncompliance with federal cash management guidelines could result in the loss of federal funding.

*Context:* The Organization drew down funds in excess of expenditures incurred for the major federal program. This resulted in refundable grant advances totaling $84,688 at June 30, 2018.

*Questioned Costs:* Not able to be determined.
2018-007 Cash Management: Improve Processes over Cash Management (Continued).

Recommendation: Monthly cash drawdowns should be calculated utilizing the information directly from the accounting system. Drawdowns should equal total actual expenditures incurred for the respective month. This method would ensure the Organization's compliance with cash management federal guidelines. Additionally, the Organization should pay funding to subrecipients on a reimbursement basis rather than in advance to minimize the amount of time passing between the drawdown and the ultimate expenditure of funds for program purposes.

Management’s Response: The CFO will ensure future drawdowns are based on reimbursable incurred costs. The CFO is reconciling the draw-downs to actual incurred costs and will take action to process a refund for amount drawn down in excess of actual expenses.

2018-008 Suspension and Debarment: Ensure Recipients of Federal Monies are not Suspended or Debarred.

Federal Program Information: Teenage Pregnancy Prevention Program (CFDA – 93.297)

Condition and Criteria: Federal guidelines requires all entities to ensure they are not entering into a covered transaction with another entity or individual that has been debarred, suspended, or otherwise excluded from receiving federal funds. The Organization does not have policies and procedures in place to ensure compliance with this federal requirement.

Prior Year Audit Finding: N/A

Cause and Effect: The Organization does not have suspension and debarment policies and procedures in place to ensure compliance with federal guidelines. This could lead to possible federal dollars being paid to a suspended or debarred entity or individual and result in the potential loss of funding.

Context: The audit finding represents a systematic problem. No instances of noncompliance were noted. The sampling was a statistically valid sample.

Questioned Costs: None.

Recommendation: We recommend the Organization develop a policy to verify that an entity the organization plans to enter into a covered transaction with is not debarred, suspended, or otherwise excluded from receiving federal dollars by checking the database on SAM.gov.

Management’s Response: Management is verifying the vendor master records to ensure none of our active vendors are included in the suspended, excluded and debarred parties’ list in SAM.gov. Our policies and procedures related to procurement will be modified to make this check mandatory prior to entering into any business transactions with vendors.
2018-009 Grant Reporting: Timely and Accurate Submission of Financial Reports.

**Federal Program Information:** Teenage Pregnancy Prevention Program (CFDA – 93.297)

**Condition and Criteria:** Financial reports should be prepared using an appropriate accounting basis and traced to the accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards. Financial reports should be submitted to the granting organization timely.

**Prior Year Audit Finding:** N/A

**Cause and Effect:** Noncompliance with reporting requirements could result in delay or loss of funding.

**Context:** One out of two grant financial reports tested were submitted one day after the deadline. None of the financial information reported in the quarterly financial reports agreed to the Organization's accounting system.

**Questioned Costs:** Not able to be determined.

**Recommendation:** We recommend the Organization implement policies and procedures to ensure compliance with all financial reporting requirements for federal grants. Additionally, we recommend the Organization utilize information obtained from the accounting system to prepare financial reports.

**Management’s Response:** The CEO and CFO will review monthly a checklist showing dates when mandatory program and financial reports were due and submitted. Reminders have been set in the CFO’s, CEO’s, and CPO’s calendar to track and ensure these reports are submitted as per the reporting requirements in the grant agreement. Further, the CFO will ensure grant financial reports are prepared based on details recorded in Quickbooks.

2018-010 Subrecipient Monitoring: Communicate Federal Requirements to Subrecipients.

**Federal Program Information:** Teenage Pregnancy Prevention Program (CFDA – 93.297)

**Condition and Criteria:** During our auditing procedures, we noted management performed subrecipient monitoring procedures as required by federal regulations. However, agreements with the subrecipients did not contain all information as required by federal regulations.

**Prior Year Audit Finding:** N/A

**Cause and Effect:** The memorandum of agreement signed with each subrecipient organization did not include all of the federal regulations that are required to be communicated to ensure the subrecipient’s compliance. This could result in subrecipients’ noncompliance with federal regulations and guidelines and subsequently SHIFT NC’s potential noncompliance.
2018-010 Subrecipient Monitoring: Communicate Federal Requirements to Subrecipients (Continued).

**Context:** None of the agreements with the subrecipients contained the Catalog of Federal Domestic Assistance (CFDA) numbers or the requirements necessary for the Organization to comply with Federal statutes, regulations, and the terms and conditions of the award.

**Questioned Costs:** None

**Recommendation:** Management should implement formalized internal guidelines and checklists for all subawards to ensure adherence to subrecipient federal regulations. This could include developing a template for subaward agreements that includes all required information. All future subaward agreements should begin with the template and then be tailored for the specific award. In addition, we recommend creating a checklist that details all required subrecipient monitoring guidelines that is reviewed quarterly for each subaward. This would ensure compliance with the federal guidelines and allow for timely review and correction, if necessary. Further, the Organization should ensure that subrecipients that should receive an audit do and follow up on the corrective action taken by the subrecipients on any audit findings.

**Management’s Response:** Management is reviewing the sub-grant agreements and will modify them to include all mandatory flow-down terms and conditions in the prime grant agreement and ensure compliance with federal regulations. We are also modifying the template for federally funded subaward agreements to include all mandatory terms and conditions.


**Federal Program Information:** Teenage Pregnancy Prevention Program (CFDA – 93.297)

**Condition and Criteria:** The Schedule of Expenditures of Federal Awards (SEFA) is prepared using source information other than the financial reports generated by the accounting system. As a result, the Organization's internally prepared SEFA did not agree to the Organization's financial records.

**Prior Year Audit Finding:** N/A

**Cause and Effect:** The SEFA was prepared and reconciled to the amount of cash drawdowns for the year rather than total expenditures incurred for the year. This could result in a material misstatement in the SEFA.

**Context:** This represents a systemic problem.

**Questioned Costs:** None.

Recommendation: The SEFA should be prepared and reconciled to the general ledger by an employee knowledgeable of the grant activity for the year. Someone other than the preparer should review the SEFA for accuracy and completeness to identify any errors and maintain proper internal controls over the preparation of the SEFA.

Management’s Response: Going forward, management will prepare the Schedule of Expenditures of Federal Awards based on the financial details maintained in Quickbooks.


Federal Program Information: Teenage Pregnancy Prevention Program (CFDA – 93.297)

The significant deficiency at finding 2018-001 also applies to this program.

Prior year audit finding: N/A


Federal Program Information: Teenage Pregnancy Prevention Program (CFDA – 93.297)

The significant deficiency at finding 2018-003 also applies to this program.

Prior year audit finding: N/A