

AUDIT REPORT
DUTCHESS COUNTY COMMUNITY ACTION AGENCY
January 1, 2006 – December 31, 2006

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Comptroller's Summary

Background

Dutchess County Community Action Agency, Inc. (DCCAA) is a non-profit organization incorporated in 1979 and designated by the Dutchess County Legislature as the county's official anti-poverty agency.

Audit Scope, Objective and Methodology

A total of \$745,646.00 was contracted to DCCAA for the period audited January 1, 2006 – December 31, 2006. The agency's independent audited financial statements for 2006 listed the Agency's expenses as \$3,264,315.00. Dutchess County had seven contracts with the DCCAA totaling \$725,961.00. In addition DSS made direct payments on behalf of its clients to the Fuel Buyers Club amounting to \$19,685.00.

The audit included a review of DCCAA's oversight and monitoring of controls as they related to the contract funding including:

- Accounting operating procedures.
- Allocation and documentation of expenditures.
- Fiscal adherence to contract requirements.

Contract detail is attached as an addendum.

Summary of Findings

Management did not place a high enough priority on the control and oversight of contract adherence and accounting practices resulting in weak internal controls. We found:

- Internal accounting controls for banking functions, invoice processing, contract compliance, expense allocations and record maintenance were either not in place or not adhered to.
- A total of \$6,838.09 is due back to Dutchess County as follows:

Contract #	Department	Contract	Amount	Reason
05-0194	DSS	BILT	\$2,980.00	Clients not eligible
05-0194	DSS	BILT	\$250.00	Calculation Error
04-0850	DSS	BILT	\$303.91	Calculation Error
04-0850	DSS	HEAP	\$3,000.00	Over-claimed
04-0850	DSS	HEAP	\$304.18	Incorrectly claimed

Detailed Findings

Internal Controls

Lack of oversight and monitoring resulted in a weak control environment.

Findings:

1. Internal accounting procedures were not comprehensive, not implemented uniformly and not actively monitored: Specifically,
 - a. There was no oversight of claims to verify compliance with contracts. There was a lack of communication between fiscal and program staff. We found claims were made without:
 - Client eligibility verification resulting in disallowances of funds paid.
 - Approved contract expenditure conformance resulting in disallowances of funds paid.
 - Payment of expenses resulting in advances of funds.
 - b. Expenses were claimed to programs based on availability of funds in the approved budget; as a result, a verification of salaries and other expenses claimed could not be supported by actual employee time and expenditure documentation.
 - c. The agency did not consistently practice diligence in its procedures to ensure disbursements were made upon proper authorization. We found instances where:
 - Purchase orders were issued after a purchase.
 - Invoices were paid without supporting documentation.
 - Invoices were not consistently assigned expense account numbers.
 - Account numbers were assigned but the expense was not posted to the account number assigned.
 - d. The agency did not have a segregation of duties for check issuance; the same individual processed computerized checks, applied the Executive Director's signature to the checks, and distributed the checks.
2. The accuracy and completeness of data in financial records and required government documents was not monitored.
 - A loan from the Dutchess County Department of Planning in 1996 for \$125,000.00 was not recorded as a liability in the financial statements.
 - The filing of the Internal Revenue Service's Return of Organization Exempt from Income Tax form 990 for 2005 was amended.
 - A 1099-MISC was not issued to a vendor providing legal services. Data submitted on the IRS 1099-MISC submittal was incorrect.
 - Year end payroll tax reports and year end bank reconciliations were not verified to the general ledger.
 - Line of Credit requirements were not met. The M&T Line of Credit requires a 30 day out of debt period; this requirement was not fulfilled.

Recommendations:

DCCAA should implement comprehensive internal controls including oversight and monitoring by the Board, Executive Director and Management. Specifically:

1. Comprehensive written accounting procedures, training, communication amongst program, fiscal and management staff; as well as, oversight of all operations must be actively pursued to promote a strong internal control environment.
 - a. Controls should be established to ensure all claims are in compliance with contracts and agreements. Compliance must be required of all employees

- involved with program delivery and claiming. Accurate and complete records must be required.
- b. Every attempt should be made to directly charge an expense to the appropriate program. An equitable allocation method should be developed, documented, and adhered to for the distribution of centralized expenses.
 - c. To ensure disbursements are made with proper authorization and procedures are adhered to, oversight should include periodic reviews of internal records and accounting controls.
 - d. Financial transactions should not be handled by only one person from beginning to end. Duties must be segregated for proper internal control.
2. All data in required financial agreements and reports must be verified, reconciled and monitored for accuracy and the appropriate oversight exercised.

Accounting Processes Reviewed

Banking

Year end bank reconciliations were reviewed and verified to the general ledger. Bank statements were reviewed for verification of deposits and the clearing of checks. Bank agreements were reviewed. The processing for check signing was also reviewed.

Findings:

1. Bank reconciliations were not initialed to indicate review by a supervisor.
2. Subsequent corrections made in the financial system caused the general ledger and bank reconciliations to be out of balance.
3. Seven checks were issued but held and then subsequently voided.
4. Per documentation provided, the Agency has a Line of Credit with M&T bank for \$200,000.00 and with HSBC bank for \$150,000.00. Current documentation for one line of credit was not available as of the audit.

Recommendations:

1. Bank reconciliations should indicate supervisory review.
2. A procedure should be established for recording corrections to the financial system without impacting the processed bank reconciliation.
3. Only checks intended to be released should be processed.
4. The Agency should have current documentation for its line of credit agreement with the bank.

Invoice Processing

DCCAA policy requires purchases to be made with a purchase order. Invoices presented for payment are required to have an executed purchase order, an approved allocation of expenses worksheet, and supporting documentation verifying the purchase. A sample of invoices was reviewed.

Findings:

In the sample:

1. Invoices were paid from copies faxed by the vendor, items were not supported with a delivery receipt, and the purchase order was processed after the invoice date.
2. Invoices were not always supported with an approved allocation of expense worksheet indicating the account numbers to be charged.
3. Expenses were not always posted to the expense account numbers noted on the allocation of expense worksheet.
4. The agency processed monthly purchase orders with payment of pension costs that were not yet due. Checks were not released and later voided which resulted in an advance of funds. These check numbers were used for claiming. At year end when pension costs were due the payment was processed and paid.

Recommendations:

1. For better control, packing slips and delivery receipts should be required to verify the actual receipt of merchandise. Purchase orders should be processed and approved before a purchase is made. Payments should be made from original invoices.
2. Every invoice should be accompanied with the account numbers to be charged.
3. Expenses must be posted to the approved account numbers.
4. Requests for payments should be processed only when payment is due.

General Ledger

The general ledger is a classification and summarization of an agency's financial transactions. The Agency's primary financial documents including the balance sheet and the profit and loss statement are drawn directly from the general ledger.

Findings:

1. Expenses were reclassified numerous times.
2. Review of the general ledger revealed:
 - a. The book balance reported on the bank reconciliation did not match the bank balance recorded in the general ledger. The error was a result of changes made in the general ledger after the bank reconciliation was performed.
 - b. There was a discrepancy of \$45,504.74 between amounts reported in the general ledger and payroll records provided by the outside vendor. An incorrect journal entry caused the error. This error had the effect of overstating salaries.
 - c. Revenue was not accrued in the Poor and Elderly Program for \$4,547.52 and in the Big Brothers Big Sisters program for \$6,400.74. The error resulted in revenue and expenses not matching for the same financial period.

After we brought the above errors to the attention of fiscal personnel they researched and agreed to make corrections.

Recommendations:

1. Reclassification of expenses should occur only on an exception basis with detailed documentation and authorization.
2. All key financial reports should be reconciled to general ledger balances to validate their accuracy. For accurate reporting of the agency's financial position, all revenue and expenses for the period should be reported. The agency should develop a procedure for reviewing year end processes to ensure the inclusion of all data.

Record Maintenance

Finding:

1. Records to support contract compliance were incomplete, and not readily available. Examples of such records are:
 - a. Client eligibility for assistance. Due to the absence of data on client accounts in the Fuel Buyers Club, we were unable to verify their need for a fuel assistance payment. Additionally, a disallowance on financial assistance to clients in the BILT[†] program became necessary due to their TANF[‡] ineligibility.
 - b. Current agreements for the bank line of credit with HSBC Bank of USA.

Recommendation:

1. Records must be reviewed for presence, completeness and must be readily available for audit. Additionally client records must be reviewed for eligibility before a claim is made.

Revenues

Payments received from Dutchess County were traced to the cash receipts journal, bank statements and detail ledger. Participant fees collected at various agency locations were traced from transmittal sheets to bank deposit slips, bank statements and general ledger.

Finding:

Revenue amounting to \$10,948.26 was not accrued for claims submitted; \$6,400.74 for the Youth Bureau Contract #05-0138 and \$4,547.52 for the DSS Contract #06-0087. This resulted in revenue not matching expenses for the period.

Recommendation:

At year end, all claims not yet paid should be accrued to match revenue to expenses.

Expenses

Personnel Services

An aggregate worksheet of employee earnings charged to all programs was prepared and verified to employee W2s.

[†] Building Independence for the Long Term

[‡] Temporary Assistance to Needy Families

Finding:

There was no documented process for allocating salaries. Salaries were charged to programs depending on the availability of funds in the grant and not necessarily actual employee time worked in the program.

Recommendation:

Salaries charged to a program must be based on actual employee time.

Fringe Benefits/Payroll tax

The agency's payroll taxes are processed and paid by the outside vendor that processes their payroll. We verified total fringe benefits claimed did not exceed the percentage approved in the contract budgets.

Finding:

The Youth Bureau contract claimed pension costs periodically against checks that were not released and later voided which resulted in advances of funds.

Recommendation:

Since this contract was a cost reimbursable agreement, these costs should not have been claimed until paid.

Other Expenses

A sample of Other Than Personal Services Expenses (OTPS) claimed, such as telephone, conference, rent, utilities and office supplies, was reviewed for allocations, accuracy and the actual clearing of the check with the banking institution.

Findings:

- There was not a documented process for allocating OTPS expenses. Expenses were allocated based on funding availability in grant budgets. For example:

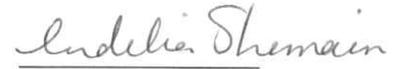
Expenses for a conference on a computer system that is used agency wide was charged to the BILT program; it should have been allocated to all programs using the system. This invoice was also over claimed by \$303.91.

- The process for assigning account numbers was not consistently followed. Expenses were not always posted to the account numbers listed on the invoice.
- An expense was incorrectly charged to a program. A legal fee of \$304.18 for the eviction of a tenant was charged to the HEAP program.

Recommendations:

- Every attempt must be made to directly charge an expense to the appropriate program; when this is not possible, an equitable documented method must be used.

- Individuals in a position to verify the purpose of the purchase must be involved in the assigning of account numbers. Assigned account numbers must be reviewed and approved. Expenses must be posted to the account numbers assigned.
- Account numbers assigned must be accurate.



Cordelia Shemain
Auditor


Diane Jablonski
Comptroller

Addendum

Contract Review

Youth Bureau

Contract # 05-0138-12/05 for \$20,519.00 covered the period January 1, 2006 – December 31, 2006 and provided for a Big Brothers Big Sisters Program. A total of \$20,519.00 was claimed

Salaries	\$16,415.00
Fringe Benefits	<u>4,104.00</u>
Total	<u>\$20,519.00</u>

Findings:

A claim for \$6,400.74 was not accrued in the agency's general ledger.

Pension costs were periodically claimed against checks that were not released and later voided which resulted in an advance of funds.

Recommendations:

The agency should improve its written procedures for financial period closings so as to achieve a matching of revenue and expense data which leads to accurate financial statements.

Since this contract was a cost reimbursable agreement, these costs should not have been claimed until paid.

Department of Planning

Contract #05-0172 for \$19,290.00 covered the period March 1, 2005 –February 28, 2006 and Contract #06-0150 for \$17,000.00 covered the period March 1, 2006 –February 28, 2007. These contracts supported a Big Brothers Big Sisters Program. Funds were provided by HUD under the Housing & Community Development Act of 1974.

An amount of \$19,290.00 for contract #05-0172 was claimed and paid for the contract term; the final payment of \$5,269.13 was made in 2006.

An amount of \$12,711.94 was claimed and paid in 2006, for contract #06-0150. The balance of the contract \$4,288.06 was claimed in 2007 but not paid as of the audit.

Expenses reported on the claims were verified to the agency's financial records.

	Contract #05-072	Contract #06-150
Salaries	\$4,235.21	\$10,626.04
Fringe Benefits	<u>1,033.92</u>	<u>2,085.90</u>
Total	<u>\$5,269.13</u>	<u>\$12,711.94</u>

Department of Social Services

The Department of Social Services (DSS) funded the following programs: Dutchess Early Childhood Intervention Program (DECIP); Building Independence for the Long Term (BILT); Home Energy Assistance Program (HEAP); programs to serve low income and elderly residents of Dutchess County (Poor & Elderly).

Contract Name Contract #	DECIP 02-0129	BILT 05-0194	HEAP 04-0850	Poor & Elderly 06-0087	Direct Payments
<i>Budget</i>	<i>\$150,000.00</i>	<i>\$304,000.00</i>	<i>\$142,830.00</i>	<i>\$72,322.00</i>	
EXPENSES					
Salaries		\$173,093.00	\$51,093.36	\$47,114.00	
Fringe Benefits		48,466.00	14,307.00	13,234.00	
Admin		54,073.00	15,330.00		
Operations		25,251.00	44,848.81	3,822.00	
Client Assistance		3,117.00			
Program Costs					
HEAP – Fuel			9,750.88		
HEAP Emergency Repair			1,000.00		
Fuel Buyers Club Memberships			5,000.00		
Meal Program				7,042.36	
Rate for Services	\$60,450.00				
Fuel Buyers Club					\$19,685.00
Total Expenses	\$60,450.00	\$304,000.00	\$141,330.05	\$71,212.86	\$19,685.00

Findings:

Salaries and expenses were allocated based on availability in grant budgets.

Expenses were not always posted to general ledger accounts as coded on the invoice. Invoices were not always supported with approved instructions indicating the account numbers to be charged.

Recommendations:

A formal and acceptable allocation of salaries and expenses should be developed.

A process for assigning accurate account numbers to expenses should be developed. Individuals responsible for recording expenses should adhere to the process. If changes are to be made, approval for the change must be documented.

Contract #02-0129 for \$150,000.00 covered the period January 1, 2006 – December 31, 2006 and supported the Dutchess Early Childhood Intervention Program (DECIP) that operates in Dover and Beacon. Reimbursement is at the rate of \$650.00 per family per month for a maximum of six months. Referrals are made by Child Protective Services (CPS), the Dover and Beacon school districts, health care professionals and self referrals. This is a preventative program providing services that empower self sufficiency. The goal of the program is to increase parenting skills and to insure a safe home for the child. The

outcome of the program is the safety of the child. Referrals must be approved by CPS. A total of 89 individuals were served of which 56 were children.

Finding:

An amount of \$60,450.00 was paid in 2006. Additional revenue amounting to \$44,850.00 was booked by the agency; however, DSS has denied payment for a major portion of this revenue as the claims could not be substantiated and CPS approval was denied. *The Agency is working with DSS to resolve the situation and prevent its reoccurrence.*

Recommendation:

Complete records must be maintained for substantiation.

Contract #05-0194 for \$304,000.00 covered the period January 1, 2006 – December 31, 2006 and provided services to TANF (Temporary Assistance to Needy Families) eligible individuals. The goal of the program was to help individuals Build Independence for the Long Term (BILT). Case managers identify needs for training, transportation, childcare and obstacles in obtaining and retaining employment. An amount of \$304,000.00 was claimed and paid.

Findings:

- A claim included individuals who were not TANF eligible; a total of \$2,980.00 is disallowed.
- A claim paid with Ck #412717 for \$25,614.51 had an error resulting in an overpayment of \$250.00.
- An over-claim of \$303.91 made on an invoice is being disallowed.

Recommendations:

- Client status should be verified for compliance to the contract before claims are made. The disallowed amount of \$2,980.00 must be returned to DSS
- The over-payment of \$250.00 must be returned to DSS.
- The disallowed amount of 303.91 must be returned to DSS.

Contract #04-0850 for \$142,830.00 covered the period October 1, 2005 –September 30, 2006 and provided for the Home Energy Assistance Program (HEAP). An amount of \$141,967.40 was claimed. This program provides emergency fuel that is dispensed to individuals at designated locations; delivers fuel to homes of the disabled, frail and elderly and homes with infants; client advocates assist families in processing HEAP applications and runs a Fuel Buyers Club (FBC). The FBC purchases oil at a bulk rate and passes on the savings to members; there is a membership fee; oil is delivered to a member's home; DCCAA is billed by the vendor and collects payment from the members.

Findings:

- An amount of \$5,000.00 was claimed for membership fees in the FBC. Since the contract provided for \$25.00 per member up to a maximum of 80 members a total of \$2,000.00 is allowed; \$3,000.00 is disallowed.
- A claim was made for legal services not related to the HEAP program; a total of \$304.18 is disallowed.
- A sample of invoices from locations dispensing fuel was reviewed, the following was noted:

Certain individuals picked up fuel oil multiple times in a month.

Some invoices from fuel distributors were not supported with delivery receipts and a listing of individuals who received the fuel.

Recommendations:

- Contract requirements should be reviewed for compliance before claims are made. The disallowed amount of \$3,000.00 must be returned to DSS.
- The disallowed amount of \$304.18 must be returned to DSS
- This is an emergency fuel service, guidelines should be established to handle individuals repeatedly picking up fuel oil and refusing to apply for permanent assistance. Invoices from fuel distributors should be monitored for delivery receipts, a listing of individuals who received fuel and the amount of fuel distributed.

Contract #06-0087 for \$72,322.00 covered the period January 1, 2006 – December 31, 2006 and provided local funding from the federal Community Services Block Grant for the operations of various programs for Dutchess County’s low income and elderly residents (Poor & Elderly). A total of \$71,212.86 was claimed.

Finding:

A claim for \$4,547.52 was not accrued in the agency’s books. Revenue and expenses were not matched to the financial period.

Recommendation:

The agency should improve its procedures of recording revenue and expense data at financial period closings to provide accurate financial statements.

DSS Direct Payments – DSS made direct payments totaling \$19,685.00 during the period January 1, 2006 – December 31, 2006 to the Fuel Buyers Club.

Department of Planning

Contract # 96-0557-PL – This contract provided a loan of \$125,000.00 with HOME Investment Partnership Program (“HOME”) funds provided to the County by the US Department of Housing and Urban Development. The funds were to acquire, repair and

rehabilitate property at 44-46 East Market Street, Red Hook, New York. The property is to be occupied by persons or families of low or very-low income. Per the contract dated August 15, 1996, the agency has to comply with restrictions for a period of not less than 15 years.

Finding:

The agency did not have the loan recorded as a liability on its balance sheet; it was mentioned as contingent liability in the notes.

Recommendation:

The liability should be recorded on the balance sheet. Until the loan term has expired, all restrictions fulfilled and the loan forgiven, it should appear on the books as a liability.



Dutchess County Community Action Partnership, Inc.

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October 9, 2007

Diane Jablonski
Dutchess County Comptroller
22 Market Street
Poughkeepsie, New York 12601

Dear Ms. Jablonski,

Thank you for providing us with the opportunity to have an exit interview and allowing me to include our Fiscal and Program heads as well as our Board of Director's Treasurer in that meeting.

We were pleased to see that from an over 3 million dollar budget only slightly over \$6,000 was in question.

As to your findings regarding operations and fiscal procedures we concur. As you learned DCCAA began in July 2006 to make changes as we were also dissatisfied with procedures. The Agency hired an accounting firm with over 40 years of NYS auditing experience. Immediately they went to work putting in place the procedures required to operate under GAAP. All findings included in your audit, not already addressed, will be addressed and written into our fiscal policies and procedures. Ongoing work will be done to address cost allocation in the area of salaries.

Sincerely,

Maureen B. Lashlee
Executive Director



"Together we make a difference"

The programs provided by this agency are partially funded by monies received from the County of Dutchess