

Dutchess Works
July 1, 2007 – June 30, 2009

October 29, 2009

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Comptroller's Summary

Background and Organization

Dutchess Works (DW) is a non-profit organization working cooperatively with related community agencies to serve employers and job seekers by operating a one-stop resource center for employment in Dutchess County, NY. Dutchess County Workforce Investment Board (DCWIB) is the sole funder of Dutchess Works. DCWIB has a contractual option to terminate its contract with Dutchess Works at any time; should the DCWIB exercise the option DW would have no source of revenue to continue operations. *The Dutchess County WIB is primarily funded by Federal dollars which pass through Dutchess County.*

The agency's website is www.dutchessworks.org.

Audit Scope, Objective and Methodology

Dutchess Works contracts with Dutchess County Workforce Investment Board were \$566,606.56 for the period 7/1/07-9/30/08 and \$502,295.00 for the period 10/1/08-6/6/09. The objective of the audit was to review program funding, claims and assess the agency's internal controls.

Summary of Findings

Dutchess Works did not exercise oversight and proper management of funding to address or prevent deficits. Internal controls must be improved to strengthen accountability and to ensure the agency continues as an on-going concern.

Detailed Findings

Control Environment

The Executive Director's responsibilities included managing the daily operations of the agency, providing information to the Board of Directors and the DC WIB, and delivering programs.

Finding:

The Board did not address the on-going deficits. Dutchess Works is at risk of becoming insolvent due to their on-going deficits.

- Records presented to the Board and DCWIB did not sufficiently identify funding issues.
- The Board did not formally question line item spending.
- The agency was given an advance of \$50,000.00 in 2006 to be utilized for cash flow. It appears Dutchess Works has used the advance to cover the agency's deficits. *We have requested that DCWIB investigate the cash advance and obtain a full accounting of the \$50,000.00.*

Recommendation:

The Board must take an active role in providing oversight and monitoring of the agency’s fiscal records. Communication must improve between the Executive Director, the Board of Directors and the DCWIB to ensure the agency’s on-going status.

While conducting the audit, we notified the DCWIB that additional monitoring was necessary regarding Dutchess Works. We brought to their attention the need to review prior and current year funding as the agency was continuously recording deficits.

Control Activities

Financial Statements/Board Minutes

Findings:

- The agency’s audited financial statements have reported losses to net assets each year as shown below.

| Year Ended June 30, | Change to Net Assets |
|---------------------|----------------------|
| 2008 | \$(28,844.00) |
| 2007 | \$(18,449.00) |
| 2006 | \$(12,737.00) |

- Board minutes reviewed for 2007, 2008 and 2009 did not address the deficits. The audited financial statements for the year ending June 30, 2009 were not available; however, unaudited expenses for the contract year ending September 30, 2008 appear to exceed the budget. On-going communication regarding deficits was not documented by the Executive Director to the Board of Directors and DCWIB.

Recommendations:

- The Board of Directors should provide additional oversight of the finances to address funding requirements and budget management.
- Communication between the Board of Directors, the Executive Director and the funding entity must be improved.

Contract Adherence and Budget Monitoring

The Executive Director is responsible for the agency’s day-to-day oversight which includes contract adherence and budget monitoring.

Findings:

- Funding mandates and approved budgets were not adhered to by Dutchess Works. Budget changes were not formalized in writing with written approvals from DCWIB as required by the contract with DCWIB.

Findings related to line items:

- The line for Personnel costs in Contract #07-0367 exceeded the approved budget by \$49,315.30. There was no written approval to move funds to the payroll lines from the other operations lines.
- Due to the above, funds were not available to pay rent and professional service obligations for the time period: \$1,720.06 for September 2008 rent and \$9,000.00 for May 2008 professional services (*audit for the year ended June 30, 2007*). Dutchess Works claimed these expenditures in the following contract period.
- Salaries totaling \$15,349.80 were incurred for the September 15, 2008 payroll and were not claimed.
- Expenses totaling \$6,956.52 were in excess of available funding and therefore denied on the final September 2008 claim.
- September 30, 2008 salaries were claimed from Contract 08-0566 that was for the period October 01, 2008 to July 31, 2009; there was no written approval for this payment to be made outside of the contract term.

Recommendations:

- Dutchess Works must adhere to funding mandates and contract requirements. All budget modifications should be obtained in writing. Personnel costs should be incurred only with available funding. Expenses incurred should be paid for in the correct contract year.

Financial Reporting

The Office Manager maintains accounting records. Quick Books is the computer software used to record financial information. An outside accounting firm prepares annual financial statements.

Findings:

- Dutchess Works accounting records were not properly designed to accurately report expenses and revenues. Oversight and monitoring of the agency's daily records was insufficient.
 - Our review of claims to the agency's records revealed discrepancies in the classification of expenses. Dutchess Works informed us the accounting software was not their official source document for claims. Dutchess Works used a subsidiary worksheet to track expenses from the checkbook and for claiming to DCWIB.
 - Internal financial statements did not present an accurate financial position of the agency. The internal reports which are submitted to the DCWIB and the agency's Board were on a cash basis and did not reflect expenses incurred but not paid and did not reflect 'advance payroll payments'.
 - The agency received payroll advances which were to be set aside for payroll. The payroll advance totaling \$16,800.00 (paid in November 2008) was not identified in the accounting software as an advance which is restricted for payroll and has been used for other operational expenses.

Recommendations:

- Dutchess Works should maintain one official set of financial records; any subsidiary worksheets should be reconciled to the official set of records. The official set of records should be maintained on an accrual accounting system which provides an accurate record of obligations and available funding. This information should be provided to the Board and DCWIB monthly. Additional monitoring by the Board and the DCWIB is necessary to ensure accounting records are complete and accurate.

Payroll Records

Staff line, a payroll company, is co-employer to Dutchess Works employees.

Finding:

- The Executive Director was responsible for initiating payroll changes including the adding of staff, payroll adjustments, and the maintenance of employee records. Additional oversight was not provided by other employees or the Board.
 - We identified insufficient support of two retroactive payments which were made to an employee. The salary of an employee was retroactively increased twice. *Subsequent to our finding, the Executive Director provided a written statement to support the payments.*
 - Records processed by Staffline were not consistently verified for accuracy. We found several instances where employees did not receive correct amounts in their 401K.

Recommendation:

- For better control, additional oversight should be instituted for all payroll activities to ensure checks and balances. All payroll adjustments should be fully documented.

Cash Handling

The processes for receiving cash, recording deposits, cash disbursements and reconciling bank accounts were reviewed.

Finding:

- There was no segregation of duties for cash handling. One person receives cash, prepares the deposit, takes the deposit to the bank, processes checks, signs checks, prepares bank reconciliations, enters data into the financial system and interacts with the accountants.

Recommendation:

- Duties should be segregated. At a minimum, the person receiving funds should not be the person disbursing and reconciling funds. Management or a board member should review and initial bank reconciliations. The person processing checks should not be a check signer.