



Dutchess County Economic Development Corporation

John MacEnroe, President

29 December 2009

Ms. Diane Jablonski, Comptroller
Dutchess County
22 Market Street
Poughkeepsie, NY 12601

Dear Ms. Jablonski:

Dutchess County Economic Development Corporation (EDC), a private, not-for-profit corporation was audited by your office for the period 1 January 2008-31 December 2008. The organization's response is submitted herewith.

Summary of Findings:

As noted in previous audits, accounting functions were not properly segregated. Additional oversight and monitoring by management was not in place to prevent the following findings:

- Duplicated entries which resulted in overstatements of revenues and expenditures.
- Bidding procedures were not consistently in place for contracts.
- Employee compensation was in excess of authorized funding by \$8,390.
- Allocations for fuel were not included on W-2s for employer provided vehicles for the President and Executive Director's personal use.
- Allocation methodologies for expenditure claiming were not documented

Organizational response:

The EDC notes that the duplicated entry cited by the auditor, represents a \$12,000 administrative fee paid by Dutchess County Tourism to the EDC, accounted for as is, due to separate funding streams for EDC and its subsidiary Dutchess County Tourism (DCT). Bidding procedures will be reviewed. The excess compensation represents imputed FICA associated with employees' 403(b) contributions. The language associated with this portion of the administrative policy will be corrected. W-2 compliance will be corrected and appropriate documentation will be maintained in the future.

Detailed Findings:

Control Environment:

Internal controls provide oversight to ensure efficient and effective management of resources as well as compliance with applicable legal requirements. Management is



defined as the President and Board of Directors. Monitoring is a critical role that must be undertaken by management to ensure fiscal accountability and alleviate risk.

Finding:

Management exercised limited oversight of fiscal operations. The chief fiscal officer had sole control over major accounting functions and processes. There were not proper checks and balances to ensure additional scrutiny for the interpretation and institution of the accounting policies and procedures as noted in the reviewed control activities.

Recommendation:

Management (President and Board) should review internal controls to ensure checks and balances are in place and ensure one individual does not have total control over all major accounting activities. Management's review of the control activities and the control environment should include interpretations of policies and procedures for accounting and control activities.

Organizational response:

Based upon my experience (March 2009 to present) appropriate management supervision is in place, documentation can and will be improved. Separation of duties, to the extent possible given organizational size will be improved.

Control Activities

Internal Controls

The agency's activities for daily operations were reviewed. This included accounting procedures, separation of duties, banking, cash handling, tax reporting and claims.

General Accounting and Separation of Duties

The Chief Fiscal Officer is responsible for management of the agency's general accounting. An outside payroll service processes payroll and payroll taxes. A Certified Public Accountant provided an independent audit. Separation of duties requires one individual not have the sole responsibility to record transactions, prepare financial documents and reconcile financial records.

Findings:

There was not a proper separation of duties as the CFO received funds, prepared deposits, deposited funds, made telephone banking transfers, processed checks, approved purchases, reconciled the bank accounts, prepared financial records including financial reports and communicated with the finance committee.

The independent audited financial statement for year ending December 31, 2008 included duplicated administration costs and did not include prior year information for comparison purposes.

The current process for paying invoices results in multiple checks being drawn on various bank accounts to pay a single vendor. Additionally invoices are copied multiple times and filed in separate files.



The payroll system is not used to allocate employee salary costs to programs and for the tracking of benefit time. These functions are manually performed by the CFO through separate spreadsheets. Employees fill in two sets of time sheets, one for payroll submission and one to record time spent on delivering the various services, Tracking of benefit time is maintained by the CFO.

The processes for allocating expenses were not documented. The agency submits budgets to the DC-Department of Planning with specific costs for each service purchased; however, there was no documented procedure on how operating costs are charged for the services.

Recommendations:

Accounting functions should be restructured to provide a separation of duties and necessary oversight.

The audited financial statements should not include duplicated expenses. Additionally, for comparison purposes the prior year's information should be provided.

The agency should consider having one operating bank account from which invoices are paid; the various cost centers could be charged to track expenses by program through the agency's accounting system. This would eliminate the need to make copies of invoices and reduce the amount of filing required; it would also make the tracking of payments easier. The number of bank accounts to be reconciled and reviewed by a board member would also be reduced.

The use of the payroll service to allocate employee costs and track benefit time should be reviewed to determine cost effectiveness.

The allocation methodologies used should be documented and approved by management.

Organizational Response:

To the extent possible, the organization will distribute as many financial functions as possible. The issues of comparative data, number of bank accounts, allocation and tracking will be discussed with the Agency's auditors and Operational Oversight committee.

Banking and Cash Handling

Deposits and bank reconciliations were reviewed. Monies received from Dutchess County were deposited timely. Monthly bank reconciliations were completed, verified to the general ledger, and reviewed by a board member.

Findings:

The agency had a total of 8 bank accounts distributed over 3 banks; there were 4 checking accounts and 4 money market/savings accounts.

Cash balances at the agency reached a maximum of \$1,128,806.04 and a minimum of \$504,740.18 for all bank accounts during 2008. The only bank investment products used were money market and checking accounts.

Balances in two banks exceeded the FDIC insured limit of \$250,000.



Recommendations:

The agency should reduce the number of checking bank accounts. Balances in non-interest bearing accounts should be at a minimum, Bank products should be used to assist in maintaining low balances in non-interest bearing accounts.

Monitoring by management and the board of the agency's cash balances should be increased to determine if better investments are needed.

Money in a particular bank account should not exceed the limit covered under the FDIC.

Organizational Response:

The Agency finds merit in the Auditor's comments and will work with its Operational Oversight committee to implement the recommendations to the fullest extent possible.

Expense Processes

Expenses were reviewed for internal control processes, claiming and adherence to policies and tax requirements.

Findings:

Per the 2008 audited financial statements the agency expended \$365,049 on advertising and marketing. Bids were not required but requests for proposals were solicited at the discretion of the department head. Also, in 2008 two vehicles were leased without formal bids. Vehicles were for the President of EDC and the Director of Tourism.

Sales tax was paid on local purchases. Additionally, sales tax and occupancy tax was paid on out-of-state hotel rooms.

The President's expenses were not approved by the Board. The President's contract provides for reimbursement of reasonable expenses as approved by the Chairman or Treasurer. The contract also required any expenses to be incurred in excess of \$500 shall, to the extent possible, be preapproved by the chairman or Treasurer.

The Department of Tourism claimed expenses that exceeded the specific line items in the contract budget. The contract required strict compliance with budgets and any change or modification had to be in writing. Written modifications were not provided.

Recommendations:

For purchases exceeding a set ceiling amount, a formal documented bidding process should be implemented. Dutchess County's policy for professional services and consultants require review of a formal Request for Proposal process be completed for expenses in excess of \$10,000. We recommend a similar policy be adopted.

Staff should be required to use the sales tax exemption whenever possible. Additionally, certificates should be obtained for use in other states that honor the NYS sales tax exemption.

The President's expenses should be approved by the Board for all methods of payment. Additionally if pre-approval is not possible a post approval should be implemented.



Contract requirements must be adhered to regarding written approval for contract changes.

Organizational Response:

The Agency finds merit in the Auditor's comments and will work with its Operational Oversight committee to implement the recommendations to the fullest extent possible.

Personnel Services

All employee salaries were charged to the EDC cost center. Reimbursement from the cost centers for Tourism and External Marketing reduced salary costs in the EDC cost center. Reimbursements from Empire Zone were recorded as Administrative Fees. The Empire Zone did not have any employees; individuals working for EZ are employees of EDC.

Personnel service expenses claimed to Dutchess County funding were verified to W-2s; there were no discrepancies.

Fringe Benefits

In 2008, each employee received \$10,285 to apply towards health insurance, dental insurance or a retirement plan. The President's benefit package is equivalent to a staff member's fringe benefit compensation plus \$5,000. Amounts applied to the retirement plan resulted in additional costs to the Agency for FICA expense. The additional FICA expense was 13.5%, approximately \$16,760 (\$8,390 for the employer and \$8,390 for the employee).

Two employees (President of EDC and the Executive Director of Tourism) receive the use of an automobile and a cell phone; personal use costs of automobiles are required to be reported on the W-2.

Findings:

When an employee chose to have part of their fringe benefit allocation for retirement, the agency increased these employees' salaries by the additional funds which totaled approximately \$8,390 (7.65% of \$109,670) in 2008 for the employees' share of FICA. The additional FICA allocation resulted in compensation to exceed the \$10,285 allocated for these employees and also resulted in an unauthorized increase in each employee's wages.

The amount reported on the employees W2 for personal use of the 'employer provided vehicle' did not include the fuel costs which are required per IRS regulations. Based on the fair market value rule the W-2s were understated by \$240 for the EDC president and \$530 for the Director of Tourism.



Recommendations:

Costs should not exceed the stipulated amount and should be returned. Equitable distribution of fringe benefits should be reviewed by the Board. IRS regulations should be adhered to. As a cost savings we recommend vehicles not be available for personal use.

Organizational Response:

The Agency finds some merit in the Auditor's comments. All compensation issues will continue to be reviewed by the Operational Oversight and Governance committees and ratified by the Board.

Revenues

Payments received from Dutchess County were traced to the cash receipts journal, bank deposit slips, bank statements and detail ledger. Deposits were made in a timely manner.

Note:

The contract provided \$100,000 for the Quad Centennial Celebration; however, only \$24,886 was claimed and reimbursed.

IRS Form 1099-Miscellaneous Income

The IRS requires Form 1099-Miscellaneous income Statements be issued to individuals/businesses that receive payment of \$600 or more in a calendar year for services provided. The form W-9 (Request for Taxpayer Identification Number and Certification) is completed by a vendor and identifies a vendor's business status. Selected expenditures were reviewed for 1099 issuance. There were no discrepancies found with the selection reviewed.

Tax Filing

CHAR 500, Annual Filing for Charitable Organizations and IRS 990 information Returns were filed.

Organizational Response:

The Agency will continue to remain in compliance with IRS regulations and correct any identified deficiencies upon discovery.

Very truly yours,