

Audit Report

Literacy Connections - Dutchess County, Inc.
January 1, 2007– December 31, 2007

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Comptroller's Summary

Background

Literacy Connections – Dutchess County, Inc., is a not-for-profit organization working to eradicate low level literacy and functional illiteracy in Dutchess. The agency recruits and trains volunteers to provide no-cost tutoring primarily to adults. Additional information is on their website: www.Literacyconnections.org

Audit Scope, Objective and Methodology

The audited period was January 1, 2007 – December 31, 2007. The Agency's audited Financial Statements for 2007 were not available at the time of the audit. Dutchess County reimbursements for 2007 expenses amounted to \$32,408.11. Funds were provided by the Planning department as follows:

Department Contract #	Term	Contract Amount	Amount Paid for 2007 Term
Planning #06-0192	03/1/06-2/28/07	\$17,000.00	\$2,629.77
Planning #07-0398	03/1/07-02/29/08	\$17,000.00	\$14,683.34
Planning #06-0163	01/1/07-12/31/07	\$15,095.00	\$15,095.00
TOTAL		<u>\$49,095.00</u>	<u>\$32,408.11</u>

The audit included review of:

- Internal controls;
- The agency's detail ledger, cost allocations, salaries and original supporting documentation;
- Contract compliance.

Contract detail is attached as Addendum I.

Summary of Findings

Literacy Connections records were found to be in good order. Recommendations are made to improve internal controls regarding separation of duties, banking and W-9 collection.

Detailed Findings

Internal Controls

The agency's internal controls for daily operations were reviewed. This included the receipt of money, bank deposits, approval of purchases, check disbursements, bank reconciliations, payroll and claim processing.

Separation of Duties- No individual should have authority over all aspects of a transaction.

Finding:

A separation of duties is not maintained – specifically:

- The fiscal administrator prepares bank deposits, has access to the general ledger, and reconciles the bank statements.
- The fiscal administrator is responsible for all aspects of payroll.

Recommendation:

Duties should be segregated for proper internal control.

Cash Handling and Banking

Deposits, canceled checks, and bank reconciliations were reviewed. Monies received from Dutchess County were deposited timely. Monthly bank reconciliations are completed and verified to the general ledger.

Findings:

- The bank balance for every month in 2007 was in excess of the insurance protection limit provided by the FDIC program, which is \$100,000.00 at each institution.
- Checks did not have a watermark to prevent forgery.
- Voided checks are stamped "VOID" however the signature portion is not defaced.

Recommendations:

- Cash balances should be invested in different banks to keep balances within the FDIC protection limit.
- To secure agency assets, the agency should use check stock that inhibits duplication.
- To enhance internal controls, the agency should consider removing the signature portion of voided checks.

Purchasing and Payment Processing

All expenses are approved by the Executive Director. Checks are processed by the Fiscal Administrator. Signators to the bank accounts include designated board members and the Executive Director, checks over \$2,000 require two signatures; checks are physically signed.

Credit Cards

The Agency has one credit card which is securely maintained and well monitored.

Claims

Claims are processed by staff. Claims were verified to the appropriate cost center.

Finding:

A few expenses claimed to Dutchess County were not posted to the Dutchess County cost centers.

Recommendation:

A review process should be put in place to ensure all expense entries are made to the appropriate cost centers.

Revenues

Payments were recorded in the appropriate revenue accounts.

Finding:

Revenues that were claimed but not yet received were not accrued. Prior period revenues were recorded in the current year. This results in revenues not being matched to expenses in the same reporting period.

Recommendation:

The agency should consider the adoption of the accrual system of accounting as this would give management an accurate comparison of revenues and expenses for an accounting period.

Expenses

The agency's budget was approved by the Board of Directors.

Personnel Services

Total salaries reported were verified to W2s. Salaries allocated to various programs were based on grants received. Allocation of salaries were adjusted as funding changed.

Finding:

Certain employees are entitled to a monthly mileage stipend of \$300.00; amounts paid were not reported on the employees W2.

Recommendation:

The agency needs to identify these payments as being made under an accountable or a non accountable plan and follow IRS rules for the reporting of this business expense.

Fringe Benefits/Payroll tax

Literacy Connections incurs payroll taxes and fringe benefit costs for all employees. Payroll taxes are processed by an outside vendor.

Tax Filing

CHAR 500, Annual Filing for Charitable Organizations

IRS 990 Information Return

The above reports have not been filed for 2007; an extension for the filing of the above reports was submitted.

IRS Form 1099-Miscellaneous Income

The IRS requires Form 1099-Miscellaneous Income Statements be issued to individuals/businesses that receive payment of \$600.00 or more in a calendar year for services provided. The agency reported that no vendors were eligible to receive these forms.

Finding:

The agency did not have adequate information to determine if vendors were eligible to receive an IRS MISC 1099.

Recommendation:

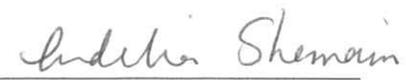
The agency should collect updated W9s on all vendors to determine their status and eligibility to receive a MISC 1099.

Contracts

Contracts were reviewed for compliance. See Addendum 1 for detail on contracts.



Diane Jablonski, Comptroller



Cordelia Shemain, Auditor

Addendum I – Contract Detail

Department of Planning

Contract # 06-0192

Contract # 07-0398

The above contracts were each written for \$17,000.00 with terms of March 1, 2006 – February 28, 2007 and March 1, 2007 – February 29, 2008. HUD funds were provided under the Housing and Community Development Act of 1974 to provide community outreach focusing on recruitment and identification of volunteers and students. Both contracts were claimed and paid in their entirety. In 2007, \$2,629.77 (January-February) and \$14,683.34 (March-December) were claimed and paid on the above contracts.

Contract #06-0163

The above contract was written for \$15,095.00 with a term of January 1, 2007 to December 31, 2007. Funds were to provide education and resource services to Dutchess County residents who are functionally illiterate. The contract was claimed and paid in its entirety.

July 25, 2008

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

Dear Ms. Jablonski,

We are in receipt of the audit findings, the result of your office's review, for the period of January 1, 2007 through December 31, 2007.

Following is our response:

Separation of Duties:

As small agency with only a few staff members, this is a challenge for us. However, our Board Treasurer is experienced in financial management and he will do the following:

- Monthly verification/reconciliation: The Treasurer will not only confirm the reconciliation of the bank statements, but will also review the checks that were issued that month.
- The Executive Director will initial all bank deposits made by the fiscal administrator.
- The Executive Director will initial to indicate review of the payroll statement from the vendor Paychex, at each pay period to ensure that someone other than the fiscal administrator is verifying accuracy of payroll distribution.

We will continue to explore ways to address the issue of separation of duties, and will talk to other small agencies about the controls they have in place.

Cash Handling & Banking:

- We have begun the process of moving funds to ensure our assets are protected by the \$100,000. limit under FDIC at each bank.
- Checks will be ordered/purchased with watermark to prevent forgery, as soon as the current supply is depleted.

One-to-one Basic Literacy
 Tutoring for Adults

Certified Tutor Training

Conversation Groups

English as a Second
 Language

Workforce Development

Family Literacy
 Programming

Project READ

Reading to Children

Drop-in Learning Centers

Annual Community
 Spelling Bee

Nationally Accredited
 and a member of
 ProLiteracy America, Inc.

Affiliated with
 Literacy New York

Senator Stephen Saland
 Honorary Chair



A United Way
 Funded Program

- Signature will be blacked out with permanent magic marker, or removed on Voided checks.

Posting expenses to cost centers:

- We will institute a review process to ensure expense entries are made appropriately.

Revenues:

- Revenues that were claimed but not yet received were not accrued. The agency will overview, and discuss with the Treasurer, the possibility of recording on an accrual basis.

Tax Filing:

- The fiscal administrator will research and print out the IRS regulations for the requirements for 1099 filings, and will meet with the Executive Director and Finance Committee to determine compliance, and change any procedures if required.

We would like to thank the Comptroller and her staff for taking the time to visit our agency and discuss our program prior to the audit. We also thank Auditor Cordelia Shemain for her thorough inspection and her helpful suggestions.

We appreciated all the positive comments made during and after the audit about our in-house financial management and bookkeeping.

Sincerely,



Margaret Pfaff
Executive Director

CC: Marisol Rodriguez
Robert Burnswick, Treasurer