Mill Street Loft, Inc.

Table of Contents

Comptroller's Summary 3
Background 3
Audit Scope, Objective and Methodology 3
Summary of Findings 3
Detailed Findings 4
Internal Controls 4
Contract Claims and Expense Review 4
Cash Handling & Banking 4
Tax and Report Filings, 1099 and W-9 Processes 5
Addendum I – Contract Detail 7

Comptroller's Summary

Background

The Mill Street Loft, Inc. is a not-for-profit corporation, whose mission is to provide year round art education programming to improve the individual life in Poughkeepsie and surrounding communities in Dutchess County. Additional information is available on the website: http://www.millstreetloft.org/

Audit Scope, Objective and Methodology

The audit of Mill Street Loft, Inc. (MSL) was conducted for the period of January 1, 2007 through December 31, 2007. MSL's audited financial report for the period ending December 31, 2007 reported the total agency's expenses as $978,162.00. Dutchess County funding for 2007 amounted to $123,500.00 and was provided from the Youth Bureau and other departments as shown below:

Funding provided by the Dutchess County Youth Bureau included:

- Project ABLE job skills training program of $25,000.00.
- Dutchess Art Camp funding of $3,750.00.
- "My Sister My Self" Program funding of $1,000.00.

Dutchess County departments provided funding to the following agencies who sub-granted to MSL:

- D.C. Planning Department - the Dutchess County Arts Council paid $6,250.00 for MSL Capital improvements.
- D.C. Department of Social Services- the Dutchess County Workforce Investment Board paid $52,500.00 for a summer youth program.
- D.C. Health Department - United Way of Dutchess County paid $35,000.00 for "What's Behind the Cigarette" program.

Contract detail is attached as Addendum I.

The audit included review of:

- Internal controls;
- 2007 Claim and Contract Review;
- Cash handling and banking, tax and report filings, and 1099 and W-9 processes.

Summary of Findings

The agency did not have a manual documenting financial processes and procedures. A process for collecting IRS W-9 forms from vendors was not in place. The agency's claiming processes for allocating expenses was not clearly defined. As a result of this audit, claims were revised and a $160.00 over claim was paid back to the Dutchess County Health Department.

Detailed Findings

Internal Controls

Processes reviewed included: receipting, disbursing, reconciling, and payroll. In most cases, the performance of these functions was separated for internal control.

Finding:

- MSL did not have a written accounting process and procedure manual.

Recommendation:

- A formal accounting process and procedure manual should be developed and implemented.

Contract Claims and Expense Review

A review of the claims made to the various contracts was conducted for verification to originating documentation. In addition, allocations of salary and contracted expenses claimed were compiled for verification. Methodologies for allocating and claiming expenses were reviewed.

Findings:

- Claiming methodology for allocating expenses was not consistent. Some salaries were claimed in full to specific contracts rather than allocating a portion for a specific time period. As a result, some contracts were paid in full prior to the expiration of the contract. In addition, claims for specific individuals were made to multiple contracts resulting in an overclaim for individual checks. We found two employees of MSL were filing claims for programs without a reconciliation process in place to ensure claims were not duplicated. *While conducting our review the agency reviewed and revised claim documentation to correct claiming errors.*
- Consultant agreements were not on file for all vendors.

Recommendations:

- A formal claiming process including reconciliation should be put in place and made a part of the procedure manual.
- Agreements should be on file for all vendors.

Cash Handling & Banking

MSL maintains four bank accounts: One for operations and three for capital funds. Deposits, canceled checks, voided checks and bank reconciliations were reviewed.

Findings:

- Deposits were not made in a timely manner.

- A manual bank reconciliation process was being utilized that was not integrated with the accounting software.
- Some bank reconciliations did not have complete information; seven of the fourteen bank reconciliations reviewed did not state the total amount of cash disbursed.
- Bank account balances were in excess of the FDIC insurance protection limit amount of $100,000.00.
- The Executive Director stated checks issued in excess of $2,500.00 required both the Executive Director and a Board member's signature. Several checks were issued in excess of $2,500.00 with only the Executive Director's signature. Instances were noted in the operating and capital fund accounts.
- Some checks were issued out of numerical sequence.
- There was no formal indication on bank reconciliations attesting to the board's review.
- A procedure was not in place for the treasurer to periodically receive the unopened bank statement.

Recommendations:

- Monies received by the agency must be deposited in a timely manner.
- The agency should utilize the bank reconciliation feature through QuickBooks.
- The process for preparing bank reconciliations should be consistently followed.
- The balance in each bank should not exceed the maximum amount insured by the FDIC.
- Checks issued in excess of $2,500.00 should have dual signatures: This policy should be formally documented in the procedure manual.
- Checks should be issued in sequential order.
- The board treasurer or designee should initial bank reconciliations attesting to the review.
- The bank statements should periodically be delivered unopened to the treasurer for review.

Tax and Report Filings, 1099 and W-9 Processes

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 IRS 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.

Findings:

- A process for obtaining W-9s from vendors was not in place during 2007.
- An agency employee received a W-2 and a 1099 as a contracted vendor for the same time period she was an employee.

- Three 1099-Miscellaneous Income Statements filed were understated for 2007: payments that were not included were as follows: $14,355.00; $120.00 and $884.49.

Recommendations:

- A process for collecting IRS W-9 forms from vendors should be implemented.
- An employee's W2 should reflect the total amount paid to the employee for the year.
- All vendor payments must be reflected on IRS Form 1099-Miscellaneous Income Statements and corrected 1099-Miscellaneous Income Statements must be filed for the three instances noted above.

Aileen Davidson

Aileen Davidson, Auditor

Vivian Williams

Vivian Williams, Auditor

Diane Jablonski

Diane Jablonski, Comptroller

Addendum I – Contract Detail

Youth Bureau

The Dutchess County Youth Bureau administered the following contracts during the audit period.

Contract #05-0137-12/05-YB-A2
This contract provided $25,000.00 for the period January 1, 2007 – December 31, 2007 for PROJECT ABLE which is a youth employment training program for economically disadvantaged youth aged 14-21. The full amount of this contract was claimed and paid for personnel and consultant expenses.

Contract #05-0139-12/05-YB-A2
A total of $3,750.00 was provided to twenty-seven youth to attend the Dutchess Arts Camp on full scholarships during the summer. The full amount of the contract was claimed and paid.

Contract #07-0237-YB
Funds in the amount of $1,000.00 were provided by the Children's Services Council's Youth Assets for the time period March 1, 2007 – December 31, 2007. This program entitled "My Sister, Myself – Reflections on Teen Sisterhood" is a collaboration of the PASWORD (**P**rogram for **A**dolescent **S**tudent **W**omen of **R**eal **D**irection) and Project AWARE's Alumnae Program project. Participants attended regular meetings to plan, screen poetry and prose works and attended performances with the goal of publishing a collection of poetry for a promotional performance in December. A total of $1,000.00 was paid to contracted professional poets/authors as facilitators.

Department of Planning and Community Development

Contract #05-0235-12/05-PL-A2/A3
This contract was between Dutchess County Planning and the Dutchess County Arts Council with a contract term of January 1, 2007 – December 31, 2007. The Arts Council paid $6,250.00 to Mill Street Loft through their Cultural Capital Program. The funds were used towards the purchase of a new 15 passenger van.

Department of Social Services

Contract #07-0216-12/07-SS
Funding was provided from the Department of Social Services to the Dutchess County Workforce Investment Board (WIB) for a TANF Summer Youth Program. WIB contracted with Mill Street Loft to provide up to twenty-five TANF eligible youth summer employment. A total of $52,500.00 was paid for June 1, 2007 – September 30, 2007.

Dutchess County Health Department

Contract #07-0143-HD

This Health Department contract was with the United Way of Dutchess County to provide $35,000.00 in tobacco prevention funding to MSL for the "What's Behind That Cigarette?" program for the period of January 1, 2007 – December 31, 2007. Funding was provided by the Children's Health Initiative through the Children's Services Council with the United Way administering contract funding. Contract claims from MSL to United Way were reviewed. United Way paid the $35,000.00 in full to MSL.