

**Nubian Directions II, Inc.**  
**January 1, 2008– December 31, 2008**

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# Comptroller's Summary

## ***Background***

Nubian Directions II, Inc.'s (NDI) mission includes providing technology training, work readiness skills and educational support services for youth and adults to enhance workforce skills. The agency's total revenue for 2008 was \$300,845.70.

Their website can be found at [www.nubiandirectionsinc.org](http://www.nubiandirectionsinc.org).

## ***Audit Scope, Objective and Methodology***

The audit of the agency was conducted for the period of January 1, 2008 through December 31, 2008. Dutchess County provided \$131,621.00 in funding as shown in Addendum I.

Internal controls, accounting processes and accounting records were reviewed.

## ***Summary of Findings***

Internal controls should be improved. Oversight of accounting processes was limited. Deficiencies were noted in accounting records:

- Payroll taxes were underreported and underpaid.
- 1099's were not issued to all vendors as required by the IRS.
- Incomplete student attendance records resulted in a total of \$320.00 due back to the Dutchess County Department of Social Services (DSS).
- Undocumented claims resulted in a total of \$52.15 due back to the Dutchess County Workforce Investment Board (DC WIB).
- 'Return of Organization Exempt from Income Tax' – Federal 990 was not filed as required by the IRS for 2007 and 2008.
- 'Annual Filing for Charitable Organizations' – CHAR 500 was not filed as required by the New York State Attorney General for 2007 and 2008.

## **Detailed Findings**

### **Internal Controls**

#### **Control Environment**

Internal controls ensure efficient and effective management of resources as well as compliance with applicable legal requirements.

Findings:

The Board and Agency did not monitor accounting activities to note and address the accounting deficiencies in recordkeeping. Operating procedures for accounting activities were not evidenced by written policies and procedures.

Recommendations:

To ensure compliance with governing authorities and maintain effective and efficient recordkeeping, monitoring by management must be improved. Accounting deficiencies should be addressed and formalized accounting policies and procedures should be implemented.

## **Control Activities**

### **General Accounting Records**

The agency maintains their general accounting records. The agency utilized an outside payroll service, Paychex, to generate payrolls and quarterly federal and state tax filings.

Findings:

- A monthly financial report was not consistently generated for review by Board/Management.
- Payrolls were understated. For employees reviewed, salaries totaling \$20,039.35 were underreported resulting in underpayments of taxes to the IRS and NYS:
  - The agency generated additional payrolls which were not reported to Paychex.
  - W-2s for most employees were understated.
- The agency did not issue 1099-MISC forms to all vendors as required by the IRS. One vendor was paid \$2,621.47 and another vendor was paid \$6,800.00 for services. In addition, the agency did not have W-9s on file, which are required to verify vendor Tax IDs for issuance of 1099s.

Recommendations:

- Monthly financial reports should be compiled to provide management with the tools to monitor the agency's financial position.
- All payroll transactions should be paid by Paychex; however, if there is an exception it must be reported to Paychex. The agency should review all employee payrolls and amend the 2008 W-2s, Federal Form 941s and NYS-45s. All compensation must be accurately reported to the IRS and NYS and the appropriate payroll taxes paid.
- Prior to a payment being made to a vendor a W-9 should be completed and retained at the agency. 1099s must be issued in accordance with IRS regulations.

### **Claim Documentation**

#### **DSS Direct Payments**

Direct payments made by DSS for Youth Build and Computer Classes were reviewed. A total of 11 Youth Build client records were reviewed to verify attendance. All 11 records examined documented dates attended. An additional 50 students attended Computer Class and were claimed to Social Services. Client records were reviewed to verify attendance.

Findings:

- Attendance records for 39 of the clients claimed to Social Services for Computer Classes could not be located in the agency files.
- Of the 39 records requested from Social Services two were incomplete. The two records resulted in undocumented claims of \$320.00.

Recommendations:

- Attendance records must be maintained and available at the agency for audit to support claims.
- The agency must maintain complete attendance records for all claims. A total of \$320.00 should be returned to Social Services.

**Contract #07-0216-A2 – TANF Youth Programs**

Claim documentation for payments funded by Social Services and paid through the DC Workforce Investment Board (WIB) were reviewed. Contract 07-0216-A2 (ND-1) was for a TANF-Youth Summer Employment Program with \$31,434.91 in funding claimed and paid. Contract 07-0216-A2 (ND-2) was for a TANF-Youth Summer Education Program with \$25,682.00 in funding claimed and paid.

Finding:

- The Employment (ND-1) documentation totaled \$31,382.41 which resulted in an overpayment of \$52.50

Recommendation:

- The total overpayment of \$52.50 for undocumented claims should be returned to the WIB.

**Bank Accounts**

The agency had two bank accounts. Authorized signors include the agency's President - CFO and the Vice President - Director for Youth and Family Programs.

Findings:

- Bank reconciliations were not completed in a timely manner and were not reviewed by management. In 2008, one bank account was reconciled from two months to nine months after the statement date. The second account was reconciled from two months to four months after the statement date.
- There was no evidence of Board/Management review of bank reconciliations.
- During the 12 month audited period, 41 checks were returned for insufficient funds resulting in \$1,586.50 in overdraft fees.

Recommendations:

- Bank account reconciliations should be completed monthly.
- Bank reconciliations should be reviewed and initialed to attest to review by agency management and/or a Board representative.
- The agency should closely monitor account balances to eliminate overdraft fees.

### **Cash Handling**

Cash is received into the agency by the President, Vice-President or Executive Assistant based on who is available.

#### Findings:

- The agency did not maintain a separation of duties for cash handling.
- Bookkeeping entries were not made in a ledger to account for cash receipts.
- Some cash donations were not deposited but utilized to replenish the petty cash fund.
- An agency check signer prepared a bank counter check to cash. The bank counter check was executed against the agency's checking account and was made payable to cash. The counter check was written, endorsed and cashed by the agency's Vice-President. It appeared funds were used to purchase a bank check to pay a past due Workers Compensation insurance premium. This transaction was confirmed by reviewing the associated checks and documentation.

#### Recommendations:

- The agency should develop policies and procedures for segregation of duties.
- Cash receipts should be deposited to a bank account with an associated revenue entry made to the bookkeeping records.
- All funds should be deposited and petty cash should be formally replenished by a check made payable to Petty Cash.
- A check signer should not prepare checks. Agency numbered checks should be used for all transactions. Checks should not be written to cash.

### **Federal and State Reporting**

The agency uses a local CPA firm to prepare its Federal and State statutory filings. The agency's Federal Form 990s - Return of Organization Exempt from Income Tax for 2007 and 2008 were requested for review. Additionally, the Agency's 2008 CHAR500 – Annual Filing for Charitable Organizations which is required by the NYS Office of the Attorney General was requested for review.

#### Findings:

- The agency filed an extension for the 2007 Form 990, which was due May 15, 2008. The extension was approved to November 15, 2008, but as of this writing the 2007 Form 990 has not been filed. The 2008 Form 990, due May 15, 2009, also was not filed and an extension had not been requested.
- The agency has not filed the 2007 nor the 2008 CHAR500 with the NYS Office of the Attorney General as of this writing.

#### Recommendations:

- Filing of the Federal Form 990 must be done on an annual basis and within the time frame allotted by the IRS to avoid late filing penalties.
- Filing of the NYS CHAR500 must be done on an annual basis and within the time frame allotted by the Office of the Attorney General to avoid jeopardizing the agency's tax exempt status and late filing penalties.

## Addendum – I

### 2008 CONTRACTS

| <b>Contract #</b> | <b>Dept</b>                   | <b>Contract Term</b> | <b>Contract Amount</b> | <b>Contract Type</b>                 |
|-------------------|-------------------------------|----------------------|------------------------|--------------------------------------|
| 08-0230           | DC Health Department          | 1/1/08 - 12/31/08    | \$14,000.00            | Nutritional Education                |
| 07-0216-A2 (ND-1) | DC Workforce Investment Board | 6/6/08 - 9/31/08     | \$33,649.00            | TANF Youth Summer Employment Program |
| 07-0216-A2 (ND-2) | DC Workforce Investment Board | 6/6/08 - 9/31/08     | \$25,682.00            | TANF Youth Summer Education Program  |
| N/A               | DC Social Services            | Direct Payment       | \$58,290.00            | Youth Build and Computer Classes     |