Nassau County
Office of the Comptroller
Field Audit Bureau

Financial Audit of the Five Towns Community Center, Inc.

HOWARD S. WEITZMAN
Comptroller

FA-06
September 20, 2006

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

HOWARD S. WEITZMAN
Comptroller

Elizabeth Botwin
Chief Deputy Comptroller

Susan D. Wagner
Deputy Comptroller
for Operations – Chief of Staff

Randolph Ghisone
Deputy Comptroller
for Accounting

Aline Khatchadourian
Deputy Comptroller for Audit
and Special Projects

Allen M. Morrison
Director of Communications

Audit Staff

Bruce G. Kubart
Deputy Field Audit Director

Carol Khoury
Senior Project Manager

Aurora Scifo
Senior Project Manager

Douglas Hutter
Field Audit Supervisor

Ellen Misita
Field Audit Supervisor

Stanley Bergman
Field Auditor

William Llewelyln
Field Auditor

Peter Graven
Field Auditor

Idowu Ogundipe
Field Auditor

EXECUTIVE SUMMARY

Background

The Five Towns Community Center, Inc. (agency) is a tax exempt 501(c) (3) multiservice organization dedicated to serving the poor within southwestern Nassau County. The agency had a 2004 $3.3 million budget funded in part by $962,402 from Nassau County. The agency offers services under seven contracts with the county, including youth programs, senior programs and drug counseling. The agency has a fifty-year lease with the county for its premises. In addition to its county and other government funded programs, the agency runs an after school program for children in the Lawrence and Hewlett school districts funded by parent fees.

Scope, Objective and Methodology

We conducted a financial audit and internal control review of programs funded by Nassau County for the period January 1, 2003 through July 31, 2005. The objective of the audit was to examine the agency's compliance with the terms of its contracts with the County's Youth Board, Drug & Alcohol, Senior Citizens and Social Services Departments. We reviewed policies and procedures, relevant accounting records and reports, and interviewed managers and staff. Amounts claimed for reimbursement from the county were traced to supporting documentation, including payroll, time and attendance records, contracts, bills and invoices, and income reported by the agency for attendees in its Drug and Alcohol funded programs.

This audit was conducted in accordance with generally accepted government auditing standards. These standards require that the audit is planned and performed to obtain reasonable assurance that the audited information is free of material misstatements. An audit includes examining documents and other available evidence that would substantiate the accuracy of the information tested, including all relevant records and contracts. It includes testing for compliance with applicable laws and regulations, and other auditing procedures necessary to complete the examination. We believe that the audit provides a reasonable basis for the audit findings and recommendations.

Summary of Significant Findings

Lax Oversight and Inadequate Internal Controls; Failure to Report Missing Funds to the Authorities

The agency did not exercise adequate oversight of employees and had weak internal controls over the cash receipts function. This lack of control provided the opportunity for employees to take thousands of dollars, according to recent criminal charges.

The agency did not immediately disclose the alleged theft to the authorities after determining that some funds were missing, and instead made a private agreement with one former employee to have missing funds returned. The agency also did not disclose the missing funds to auditors from this office until questioned regarding discrepancies and inconsistencies in revenue reporting. Our audit indicated that the amounts missing were significantly higher than originally determined by the agency. Subsequent to our audit the agency retained the services of a forensic auditor to determine the full extent of the theft. The forensic auditor concluded that the theft was in excess of $50,000. Two former employees were arrested in May 2006 and charged with grand larceny and other crimes. Subsequently one of the former employees and two other people were indicted on multiple counts related to these events.

In addition, agency employees did not comply with the agency's written cash receipts procedures, and the procedures have not been updated since 1990 and do not reflect the agency's current operating environment.

Internal Control over Donation Income

The agency did not maintain adequate control over the receipt of donations. We could not assure ourselves that donations were properly accounted for because the agency did not reconcile donation income as recorded in the general ledger with the Development Director's record of donations received. We noted one receipt for a $1,100 donation that was not recorded in the general ledger as a donation, and because the agency did not retain deposit slips, we could not assure ourselves that the funds were ever received or deposited into the agency's bank account.

Rental Income

The Comptroller's two previous audits of the agency, covering the years 1988 through 1989 and January 1993 through August 1997, found that the agency was renting rooms on the county-owned premises to the public to hold private functions. The county's lease with the agency requires the agency to pay a rental of only $1 per year and it states that "The payment of all rents of subtenants or assignees shall be made directly to the landlord, County of Nassau."

The second audit requested that the agency remit $113,958 to the county for subtenant rents collected during both audit periods. To date the agency has not complied with this request and has continued to rent the premises without remitting the rent to the county. According to the contracts examined, the agency collected $14,650 in rental fees during the current audit period.

Moreover, the agency did not establish proper controls over rental income. No list of rental agreements to compare against the rental fees received and deposited was prepared. We found five rental contracts for income totaling $3,400 that could not be traced to the general ledger or to deposits in the bank account. As a result, we could not be assured that the renters paid the fees, and if paid, that the agency ever deposited the fees.

Payroll

We found that employee lateness was pervasive and that the agency was paying employees for time not worked. In some instances, the county was charged the salary expense for time not worked. The agency's personnel policy manual states that employees will be docked for lateness in excess of 15 minutes; however the agency paid employees approximately $4,400 during a two-week test period for time that was not accounted for on the time clock. This resulted in the county paying for services that it is not receiving.

The Executive Director's salary was increased more than once during the audit period but there was no evidence that anyone other than the Executive Director approved the increases.

Allocation of Salary and Other Costs

The agency did not maintain any records to substantiate its cost allocations. It informed us that indirect expenses were allocated based on a percentage of total salaries, but could not provide supporting documentation. Agency senior management told us that salary allocations are made based on the availability of the expenses in the budget rather than on the amount of time spent working on each program. In addition, the same improper methodology that is used to allocate salary expenses is used for other costs.

Bank Reconciliations

We found that the agency did not reconcile bank accounts timely or completely. In addition there was no segregation of duties because the bookkeeper who is responsible for authorizing the payroll and maintaining the general ledger also reconciles the payroll account.

Record Retention

Nassau County's contracts with the agency require the agency to retain financial records for six years following the later of termination of or final payment under the contract. We found that the agency did not properly retain records or did not retain them in a manner under which they could be retrieved. Our audit was impeded by the inability of the agency to produce financial documentation we selected for testing.

*****

On June 29, 2006, we submitted a draft report to agency senior administrators and the President of the Board of Directors. The agency's comments were received on July 13, 2006. The agency's comments and our response to those comments are included as an addendum to this report (Appendix).

Table of Contents

Findings and Recommendations **Page Number**

Lax Oversight and Inadequate Internal Controls; Failure to Report Missing Funds to the Authorities

Cash Receipts

Audit Finding (1):

Five Towns exercised lax oversight of its employees during the audit period and did not establish adequate internal control over the cash receipts function. When funds were missing, the agency failed to report the problem to the authorities.

Prior to our audit, the agency had suspicions about a possible shortage of funds and performed a review of cash receipts for its Drug and Alcohol program. The agency determined funds were missing and made a private agreement with its former bookkeeper to recover $2,200. The agency did not report the missing funds to the authorities at that time.

This audit began in the fall of 2005. When the field auditors raised questions regarding discrepancies and inconsistencies in revenue reporting, the agency disclosed the missing funds to this office. Our audit, which was limited to Nassau County funds, indicated that the amounts missing were significantly higher than originally determined by the agency. This office strongly recommended that the agency disclose the missing funds to the authorities, which the agency did in January 2006. In addition, and consistent with our recommendation, the agency hired a forensic auditor to determine the scope of the issue. In May of 2006, the former bookkeeper and another former employee were arrested and charged with grand larceny, forgery and falsifying business records. Subsequently, the former bookkeeper and two other people were indicted on multiple counts related to these events.

The lack of internal control was found throughout the cash receipts process. While written cash receipt procedures existed, they have not been updated since 1990 and do not reflect the agency's current operating environment. The agency's written procedures require the centralization of the function of the cash receipt of fees and other agency charges. The procedures call for the administrative assistant to issue prenumbered receipts in exchange for cash payments and prepare a list of the receipts. The list, along with a copy of the receipts, must be provided to the accounting department and the cash deposited daily.

The agency did not follow these procedures. We found that:

- the cash receipts function was not centralized, cash is received at a number of intake points (each program/department had control over its own receipts);

- prenumbered receipts were not used in a manner to establish control. Without control over receipt books and the numerical sequence of receipts, the agency cannot be assured that all receipts are accounted for and deposited. The agency:
    - used prenumbered receipt books; however it did not issue receipts in numerical sequence or account for all the receipts. We tested 48 receipts for the month of December 2004 and found that 7 were issued out of sequence. We found an 11 month gap in numbering in one receipt book used for fundraising; according to the general ledger, donation income was received during that period.
    - issued a number of receipt books to different employees, but could not determine how many books were outstanding in Fall 2005
- the agency did not prepare lists to establish control of cash receipts by the employee accepting payments. Cash changed hands two or three times without certification of amounts by each employee receiving the cash. We found that the total of the receipts given to clients for cash received never reconciled to the totals deposited by the bookkeeper or any interim receipts for counts of cash;
- the agency did not deposit cash receipts daily; and
- the agency kept cash records in a disorganized manner, with deposit receipts not filed with the bank statements. In addition, the agency could not locate deposit slips requested during the audit. For example, it could not locate deposit slips for the Drug and Alcohol program for the second half of 2003 or seven of 15 deposit slips for 2004. We could not verify that recorded cash receipts were deposited into the agency's bank account.

We also found that the agency did not reconcile income reported by program managers to deposits and income reported to the county. Had this procedure been followed, it is likely that the missing funds would have been detected earlier. We found unexplained differences. For the audit period, monthly activity sheets for the Drug and Alcohol Program reported a total of $23,866 in fee income, however only $17,866 was recorded as income in the general ledger and only $16,672 was reported as income to the county on claim forms. The agency could not account for the $6,000 difference between income reported as collected and income that was recorded in the general ledger. The agency subsequently recovered $2,200 of the $6,000 difference from its former bookkeeper, but $3,800 remained unaccounted for.

During the time of our field work, the agency totaled all the individual cash receipts provided to clients on a month by month basis for the period January 2004 through July 2005 and found that while receipts issued totaled $19,901, the monthly activity sheets showed only $18,291 received by the administrative assistant. In addition, we found six deposit slips totaling $1,488 that were not entered into the general ledger.

<u>Audit Recommendations:</u>

The agency should:

a) correct the internal control deficiencies that permitted the theft to occur;

b) determine the amount of funds that were stolen, and if the funds should have been credited to the county, reimburse the county for the stolen revenue;

c) establish procedures to guide all agency employees in making appropriate decisions, deter wrongdoing and encourage honest and ethical conduct;

d) report missing funds to the proper authorities, instead of working out private settlements for the return of funds;

e) establish centralized control over receipts at the point of intake by issuing sequentially prenumbered receipts for cash payments;

f) require the employee who receives the cash to list and total the cash and checks received on a daily basis and then reconcile this amount with the amount on the receipt given by the administrative assistant;

g) reconcile the total of the receipts issued to the daily bank deposits, revenue recorded in the general ledger, monthly activity reports and claims filed with the county; and

h) retain and organize copies of all receipts and deposit slips.

Cash Disbursements

Audit Finding (2):

We found that the agency did not establish proper internal controls over cash disbursements to ensure proper authorizations. The agency:

- reimbursed the assistant director for $191.30 in travel expenses without any review or approval of the expense;

- purchased a personal computer for $2,229, however the purchase approval and packing slip could not be located. In addition, the agency did not affix a fixed asset tag; and

- hired and paid a consultant $1,125 without a contract.

Audit Recommendations:

The agency should ensure that expenditures are properly authorized.

Internal Control over Donation Income

Audit Finding (3):

The Agency did not maintain adequate control over the receipt of donations. We could not assure ourselves that donations were properly accounted for because the agency did not reconcile donation income as recorded in the general ledger to the Development Director's record of donations received. The agency did not maintain a record of the donors names and donation amounts that corresponded to each bank deposit; therefore we could not verify that all donations received were deposited. In addition, prenumbered receipts provided to donors were not issued in numerical sequence or accounted for.

We found one receipt issued on September 10, 2003 for $1,100 that was not entered into the general ledger as a donation, and because the agency did not retain deposit slips, we could not assure ourselves that the funds were ever received or deposited into the agency's bank account.

Audit Recommendations:

The agency should:

a) issue prenumbered receipts for all donations in numerical sequence;

b) include the names and amounts of each donation in journal entry descriptions; and

c) maintain a record of all donations and reconcile it to the donation income general ledger account and to bank deposits.

Rental Income

Audit Finding (4):

The Comptroller's two previous audits of the agency, one covering the period 1988-1989 and the second covering the period January 1993 through August 1997, found that the agency was renting rooms to the public to hold private functions. The agency's board of directors had:

- established a *Rental Fee Schedule;*
- required an *Application for Room Rental*;
- required that the lessee sign a lease agreement; and
- required a refundable security fee.

The county's lease with the agency requires the agency to pay a rental of only $1 per year; however §14.07 of the lease agreement states that "The payment of all rents of subtenants or assignees shall be made directly to the landlord, County of Nassau."

The second audit recommended that the agency remit $113,958 to the county for rents collected during both audit periods. To date, the agency has not paid the County for back due rent.

We found that this condition continues to exist. According to contracts examined, the agency collected $14,650 in rental fees during the current audit period. However the agency recorded rental income as donations in the general ledger, in what might have been an attempt to avoid complying with the County lease.

The agency did not establish proper controls over rental income. It did not prepare a list of rental agreements to compare against the rental fees received and deposited. The only record the agency had was a file folder maintained by the administrative assistant containing leases; however we could not determine if it was complete. For 2004 and 2005, we reviewed the folder and noted five leases that required rental fees and security deposits totaling $3,400. We could not trace the fee income from these leases to the general ledger or to deposits in the bank account. There was no evidence that these fees were paid and received by the agency.

In addition, the agency's insurance policy permits ten functions per year where liquor is served, but the agency did not maintain documentation to evidence that these limits were adhered to.

Audit Recommendations:

The agency should comply with §14.07 of its lease agreement with the county and remit $128,608 in subtenant rental income to the county.

The agency should request County permission to amend its lease to permit it to rent out space and collect all or a portion of the income. In the absence of County consent, the agency should immediately cease treating rental income as “donations” that do not have to be paid to the County and, if it continues to rent out space, require current and future renters to pay the county directly.

In addition, the agency should:

a) investigate the disposition of funds received on leases that we could not ascertain were deposited into the agency’s bank accounts;

b) prepare a list of rental agreements and reconcile against rental fees received and deposited; and

c) maintain proper documentation regarding functions where liquor is served.

Payroll

Audit Finding (5):

We found that the agency was paying employees for time not worked due to lateness, and in some instances charging the County for time not worked. Tardiness appeared pervasive. A scan of timesheets for the audit period revealed that many employees are chronically late to work and many leave work early. The agency's personnel policy manual states that employees will be docked for lateness in excess of 15 minutes.

The agency was not adhering to this policy. We found that employees are paid for a full day even when they are more than 15 minutes late. The agency's Human Resource Director routinely overrode the time clock and paid employees for a full day regardless of the time recorded. We reviewed the automated time card report produced by the agency's system for the two-week pay period ended December 3, 2004. We tested 30 employees and found that 15 of the 30 employees tested punched in for less than 77.5 hours each, but were paid for a full 80 hours. (77.5 hours represents the minimum number of hours that must be worked assuming the employee is permitted to be 15 minutes late every day.) The agency paid employees approximately $4,400 during this one pay period for time that was not accounted for on the time clock. We also reviewed the two subsequent pay periods and found similar instances of lateness overrides. We asked the Human Resources Director the reason for this practice and were told that she was taught to do the payroll in this way by the prior Human Resources Director. The Human Resources Director appeared not to understand the mechanism of the time recording system as she could not explain many of the notations made by the system.

The practice of overriding the time clocks and paying employees for time they may not have worked can create a lax environment where lateness is an accepted habit. We noted that the fifteen employees who were late for more than an average of fifteen minutes per day were all charged to the county. This results in the county paying for services that it is not receiving.

The time records maintained do not require a certification by the agency's Executive Director or individual program directors to attest that the time record is accurate. We also found that no time record is maintained for the Executive Director and that there was no evidence that the Executive Director's time is reviewed by the Board of Directors.

In addition, the Executive Director's salary was increased during the audit period but there was no evidence that changes to the Executive Director's salary were authorized by the Board of Directors. The salary increase authorizations we examined were either unsigned or signed by the Executive Director approving his own salary increase.

We also found that the agency continued to pay its comptroller for 20 work days, or $4,280, after he resigned. The termination pay was approved by the Executive Director; however there was no evidence that the Board of Directors also approved the payment.

Audit Recommendations:

The Agency should:

a) prohibit the human resource director from overriding time cards;

b) require time records to be certified by employees who are knowledgeable about the attendance of the employees they are certifying, such as the employee's supervisor;

c) institute a policy similar to Nassau County's under which lateness is accumulated and charged against employee leave entitlements when a predetermined amount of time, such as ¼ day is accumulated;

d) require the Executive Director's compensation to be reviewed and approved by the Board of Directors; and

e) require the Board of Directors to approve the payment to employees of unearned compensation such as termination pay.

Allocation of Salary and Other Costs

Audit Finding (6):

The Office of Management and Budget Circular A-122 establishes cost principles for not-for-profit organizations. It requires that costs that cannot be directly attributed to programs be allocated based on some reasonable basis. The basis for these allocations should be documented and the county's contract with the agency requires the agency to retain this documentation for audit for a period of six years.

The agency did not maintain any records to substantiate its indirect expense allocations. It informed us that indirect expenses were allocated based on a percentage of total salaries, but could not provide supporting documentation. Salary is not a reasonable basis for allocating most expenses, which should be allocated based on the cost generated by the program. For example, liability insurance should be allocated based on risks covered. All indirect expense allocations should be reviewed to determine whether an allocation other than one based on salary is appropriate.

Further the salary allocations are made based on availability of budgets rather than on the amount of time spent working on each program. The failure to charge salary expense in accordance with work performed and its resultant impact on the allocation of other indirect expenses may result in the county paying for resources expended on non-county contracts.

Audit Recommendations:

The agency should:

- perform time studies to determine how much time is spent by employees on each program;
- allocate employees' salaries and benefits to programs based on the time spent on each program;
- develop a reasonable basis for the allocation of indirect charges to programs; and
- retain documentation to support its allocations for six years.

Bank Reconciliations:

Audit Finding (7):

All bank accounts should be reconciled timely so that any errors can be detected and corrected. We found that the agency did not reconcile bank accounts timely or fully and items that should have been resolved were not.

- The general account bank reconciliations for March and May 2005 both showed an unreconciled difference of $2,324.

- The March and May 2005 bank reconciliations both showed five deposits in transit dating back to February 28, 2005.

- The May 2005 reconciliation listed six checks totaling $451.55 that were outstanding for more than eight months.

- A review of the monthly bank reconciliations for 2003 showed that nine months of bank statements were not reconciled until the last week of December 2003 and for 2004, six months of reconciliations were performed at the end of August 2004.

We also noted internal control weaknesses over bank reconciliations due to an improper segregation of duties. The bookkeeper who is responsible for authorizing the payroll and maintaining the general ledger also reconciles the payroll account.

Audit Recommendations:

The Agency should:

a) establish policies and procedures requiring bank statements to be reconciled to the general ledger in a timely manner;

b) investigate deposits in transit to determine why the bank did not credit the account;

c) investigate old outstanding checks to determine if they should be voided and reissued; and

d) require bank accounts to be reconciled by employees who have no cash receipt or cash disbursement responsibility and who do not have access to the accounting records.

Controls over Journal Entries

Audit Finding (8):

The agency does not number journal entries sequentially and therefore does not maintain an adequate trail of accounting entries. We reviewed all journal entries posted for the month of December 2004 and found no record of nine journal entries. In addition we found that journal entries were numbered out of date sequence. Four journal entries were dated as of December 1, even though previous entries had been posted as of December 31.

While the agency's general ledger program automatically numbers and dates journal entries, these controls were overridden by the agency.

We also found that the agency did not always provide adequate documentation or explanations for journal entries and journal entries were not always reviewed and approved by a higher level employee. Examples include journal entries to:

- charge retroactive salary of $282.30 to the Gang Prevention Program; and
- transfer $288 of consulting expenses from the after school program to the Gang Prevention Program.

Audit Recommendations:

The agency should ensure that all journal entries:

a) are consecutively numbered, posted and accounted for;

b) contain proper supporting documentation; and

c) are reviewed and approved by management.

Record Retention

Audit Finding (9):

Nassau County's contracts with the agency require the agency to retain financial records. For example, its contract with the Department of Social Services for employment services covering the year 2005 requires the contractor to "maintain and retain, for a period of six (6) years following the later of termination of or final payment under this Agreement, complete and accurate records, documents, accounts and other evidence. . . Such records shall at all times be available for audit and inspection by the County Comptroller..."

We found that the agency did not retain records or did not retain them in a manner under which they could be retrieved. Our audit was impeded by the inability of the agency to produce financial documentation we selected for testing: These included:

- one monthly claim for the Youth Board Program and two monthly claims for the Drug and Alcohol Program;
- bank deposit slips for 160 out of 587 deposits made over a five month period;
- voided checks along with supporting documentation to explain why the checks were voided;
- books of cash receipts issued; and
- time records for the pay periods ended December 5 and 19, 2003.

Audit Recommendation:

The agency should establish a record retention policy to ensure that it retains and stores all financial records in a retrievable manner for a minimum of the six years required by its contracts with the county.

---

1. <u>Cash Receipts</u>

<u>Agency Response</u>*:*

The Agency is in concurrence with the findings and has implemented the following:

a) Pre-numbered receipt books have been re-issued, and are controlled by the controller. The pre-numbered books are associated with each individual program. The numbered receipts are then entered into the system with the sequential range. The sequential receipts are then reconciled back to the books & charges. New books are not given out until the used receipt book is returned and safeguarded. In addition, receipts are brought directly to the accounting dept. and are validated upon receipt.

b) Deposits are made daily to the accounting department, it is against policy to hold any monies for more than 24 hours. Bank deposits are made daily and this has not deviated from the previous policy.

c) Cash records are being kept in an orderly accounting manner, with all deposit slips, cash receipts and bank statements being kept centrally by the dept rather than by individual bookkeepers.

d) The Cash Receipts Journal Report is reviewed and signed by the Comptroller daily.

e) The bookkeeper receiving cash and or cutting checks will not be performing bank reconciliations.

f) No bookkeepers can edit or delete any system records via the computer system. This procedure can <u>only be done</u> by the Comptroller.

g) Upon final reconciliation, all monies stolen during the fraud period by the former employee will be returned to Nassau County as required**.**

<u>Response to the Agency not reporting the theft to Nassau County:</u>

When the Agency initially discovered missing cash amounting to $2,100, the management team and the President of the Board felt that the evidence was soft and was inadequate to prosecute at the time and then recovering the monies would be the prudent first choice. In addition, it was felt that without adequate evidence, it could expose the Agency to a costly lawsuit for "false accusations". When the Agency first submitted the

$2100 evidence to Nassau County's CAPS team, they stated the evidence wasn't enough to bring forward, and they wanted something more concrete. Due to the shortage of staff, Five Towns Community Center did not have the resources to conduct an extensive audit of the books going back to 2003.

Several weeks after the County finalized its three-month audit, the accounting staff of Five Towns discovered discrepancies of electronic records and checks which later amounted to an additional $56,906 stolen from the Agency. In February 2006, the Agency felt there was now hard evidence that fraud was conducted by the former bookkeeper. Senior staff immediately contacted the Finance Committee of the Board and received approval to hire a forensic audit team at its own expense to uncover and collect additional evidence in order for the County and the Agency to prosecute the case. When the forensic report was finalized the Agency was able to bring the evidence and the Independent Forensic Audit Report to the Detectives and later to Nassau County District Attorney. The evidence finally included 65 checks paid to four fictitious venders amounting to $56,906.

After working with the DA to obtain and include the hard evidence obtained after the County Audit, and by tying the four alleged suspects to the incident the Agency is confident that it made the right choices from the very beginning of the incident.

Going forward, the Agency shall report immediately to the County Comptroller's Office any suspicion or incidents of fraud.

Auditor' Follow-up:
We concur with the corrective actions taken by the agency regarding its cash receipts process.

We stand by our comment regarding the agency's failure to contact law enforcement authorities in connection with the theft of funds and disagree with the agency's attempt to work out a private settlement with its former employee. The agency first became aware of the missing funds in the Spring of 2005, yet did not file a police report until January, 2006. It also did not report the shortage of funds to our audit team or seek advice from its external auditor or legal advisor. The hiring of the forensic auditor that resulted in the discovery of the additional shortfall of $56,906 validates the recommendation made by our audit team that the agency pursue this matter vigorously. Moreover, in addition to reporting the matter to the authorities, all indications or suspicion of fraud should be immediately reported to the funding sources as all aspects of fraud are considered material based on current auditing standards.

2. Cash Disbursements

Agency Response:

a) It is the policy of FTCC to have a Check Request with all proper backup for travel. We believe that the backup was separated from the check request during a previous audit and never re-filed as a complete package.
b) All expenses require a check request and can only be paid with a voucher and billing statement. Again, the specific item must have been separated or not filed correctly thereby resulting in a misfile.
c) Equipment should have been tagged upon receipt of the equipment and this will being corrected during the 3rd quarter of 2006.
d) All consultants require a consultant contract, approved by the Program Director, Executive Director or Associate Director. Staff is investigating the specific mentioned transaction to evaluate what happened.

Auditor's Follow-up:

We concur with the corrective actions that will be taken by the agency in the 3rd quarter of 2006 with respect to tagging equipment upon receipt.

3. Internal Control over Donation Income

Agency Response

The agency receives donations and conducts fund raising from many different sources. FTCC centralized fundraising and donations through two employees. They generate receipts and letters to the donors. The cash receipt is then forwarded to the bookkeeper in charge of the donations and is booked by receipt number range and then file all deposit slips with the spreadsheet that is generated by the fundraising dept. The spreadsheet contains the name, date and amount of the donation. The report is then reconciled against the general ledger.

Auditor's Follow-up:

We concur with the corrective actions taken by the agency.

4. Rental Income

Agency Response:

The Board of Directors and Management disagree with the rental finding and will proceed to resolve this issue with Nassau County's Real Estate Department and the County's Legal Affairs Division.

Auditor's Follow-up:
We concur with agency's decision to resolve this issue with Nassau County's Office of Real Property and Development, and the County Attorney's Office. We will also engage the County's Department of Social Services.

5. Payroll

Agency Response:

a) The Agency has tightened all employee lateness regulations, whereby the Executive Director will review all lateness's and when trended abuses are occurring, will deduct lateness from personal or vacation time.

b) All program directors and supervisors are now required to sign the time sheets bi-weekly.

c) The HR Director no longer has access to the system to edit time clock information and was retrained according to the revised policy.

d) The Board of Directors will review the Executive Directors Salary Annually prior to review.

e) The payment of the former Comptroller for 20 days was not severance pay, it was unused vacation time and is written in the payroll policy, therefore Board approval was not required.

Auditor's Follow-up:
The policy to deduct lateness from personal or vacation time should apply to all lateness and not be limited to trended abuses.

With respect to time charged to county contracts during the audit period but not worked due to lateness, the agency should undertake a review of lateness during the audit period and reimburse the county for any time claimed but not worked. Going forward lateness should not be included in any claim submitted to the county.

6. Allocation of Salary and Other Costs

Agency Response:
The agency has formalized its retention of allocations backup documents under the new comptroller. In addition, allocations based upon specific criteria that coincides with A122 guidelines is being transitioned and is updated quarterly.

Time studies to determine the approximate time on funding sources are being performed.

Auditor's Follow-up:
We concur with the corrective actions already taken by the agency and the planned corrective action to perform time studies.

7. Bank Reconciliations

Agency Response:

a) Bank reconciliations were not being done timely in 2003 because of a turnover of the Comptroller and a bookkeeper. The staff had very limited resources during this period due to budget cuts impacting administration and accounting departments. However, since QIII- 2004, bank reconciliations are being done in a timely fashion. (within 15 days of receipt of bank statements).

b) The bank rec had an erroneous classification for deposits in transit and has been re-classed accordingly.

c) Outstanding checks are now voided after 120 days and reissued after due diligence and analyses to ensure current relevancy.

d) As part of the internal control overhaul, the bookkeeper reconciling bank accounts cannot cut checks, post payments or receive monies.

Auditor's Follow-up:
We concur with the corrective actions taken by the agency.

8. Controls over Journal Entries

Agency Response:

a) The software system Fund E-Z for non-profit organizations does provide sequencing of journal entry numbers, however each month the numbering starts from 1 to xxx. In order to enhance the control, the bookkeeper now keeps a journal entry control log on file which captures the dates, sequence number and control totals in order to tighten the internal control of the entries.

b) In addition, bookkeepers do not have the system authority to edit journal entries, invoices, vendor files, and chart of accounts or cash receipts. Only the Comptroller can make adjustments with proper back up and approval.

c) Prior to data being entered by the bookkeepers, all journal entries require backup and prior approval is filed in the general journal.

d) contain proper supporting documentation; and

e) are reviewed and approved by management.

Auditor's Follow-up:
We concur with the corrective actions taken by the agency.

9. Record Retention

Agency Response:
Five Towns Community Center retains its records for 7 years or more. Due to the many audits the agency undergoes, staffing turnover and funding cuts and human error; some records were misfiled by staff. Eventually all the missing claims were found.

a) The agency will institute a sign-out/ sign-in process for all records, claims etc. In addition, the agency has segregated the accounting records in a separate room from the operations of the organization.
b) The agency is reviewing the investment in electronic scanning technology and the training of personnel to more effectively manage the enormous volumes of paper.

Auditor's Follow-up:
We concur with the corrective action taken by the agency. We concur with the planned corrective actions to institute a sign-out/ sign-in process for all records. We also commend the Agency's decision to explore the use of electronic scanning technology and the training of personnel.