

# Internal Audit Report of Henrico County Community Partners Inc, FY 2012

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## County of Henrico



*Proud of our progress;  
Excited about our future*

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### Internal Audit Report #236 January 31, 2013

HENRICO COUNTY INTERNAL AUDIT  
<http://www.co.henrico.va.us/audit>

4301 EAST PARHAM ROAD  
P.O. BOX 90775, RICHMOND, VIRGINIA 23273-7032



# Internal Audit Report on Henrico County Community Partners, Inc.

for the Year Ended June 30, 2012



Report #236  
January 31, 2013

County of Henrico Internal Audit

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## Summary

- Scheduled Audit
- Conclusions on Audit Objectives:
  - ▲ Examine and report on adequacy of internal control
  - Review compliance with grant requirements, if any
  - ▲ Review compliance with Corporate Bylaws and Internal Revenue Service requirements
  - Opine on the consolidated financial statements
  - Follow-up on prior recommendations and report on audit findings
- Exception Oriented
- 5 Reportable Issues and No Other Observations
- Management Action Plans have been developed to address all risks identified.

■ Sufficient

▲ Needs Improvement



Insufficient-Immediate Attention

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## Contents

- Introduction and Background
- Scope, Objectives, and Methodology
- Conclusions on Audit Objectives
- Issues and Management Action Plans
- Opinion on Financial Statement
- Financial Statement
- Closing and Report Distribution



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## Introduction

- Auditor III Joyce Aikor-Richardson performed Audit work
- Scheduled Audit
- Used professional auditing standards
- All exceptions given to Agency
- Reported control design issues and significant test exceptions only
- Work for same Government we Audit



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## Background

- Not-For-Profit Organization of Henrico County Community Criminal Justice Board
- Video production & sales
- Support programs:
  - Drug Court
  - Drug Court-Healthy Lifestyle Initiative
  - Stepping Stones
  - Emergency Crime Victim Assistance
  - Domestic Violence Victim Assistance
  - Project Lifesaver

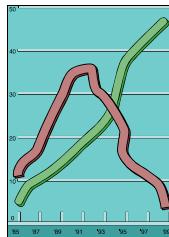


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## Scope—FY12



**All transactions, no exclusions**

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## Audit Objectives

- Examine and report on adequacy of internal controls
- Review compliance with grant requirements, if any
- Review compliance with Corporate Bylaws, and Internal Revenue Service requirements
- Review financial statements



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## Audit Methodology

- Test compliance with Federal, State, grants and program requirements
- Test compliance with Bylaws
- Review and Opine on Financial Statements



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## Internal Controls

### Objectives:

- Reliability and integrity of information
- Compliance with policies procedures, laws and regulations
- Safeguarding of Assets
- Efficiency and effectiveness of operations



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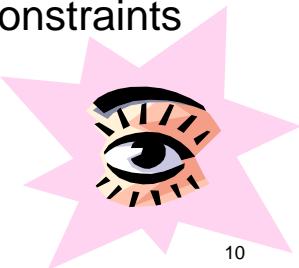
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## Internal Controls Cont'd

### General limitations of any controls:

- Errors and irregularities may go undetected
- Inherent limitations in any control structure
- Limitations include resource constraints
- Compliance may deteriorate



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## Conclusions on Objectives

- ▲ Examine and report on adequacy of internal control
- Review compliance with grant requirements, if any
- ▲ Review compliance with Corporate Bylaws and Internal Revenue Service requirements
- Opine on the financial statements
- Follow-up on prior recommendations and report on audit findings

■ Sufficient

▲ Needs Improvement

◆ Insufficient-Immediate Attention

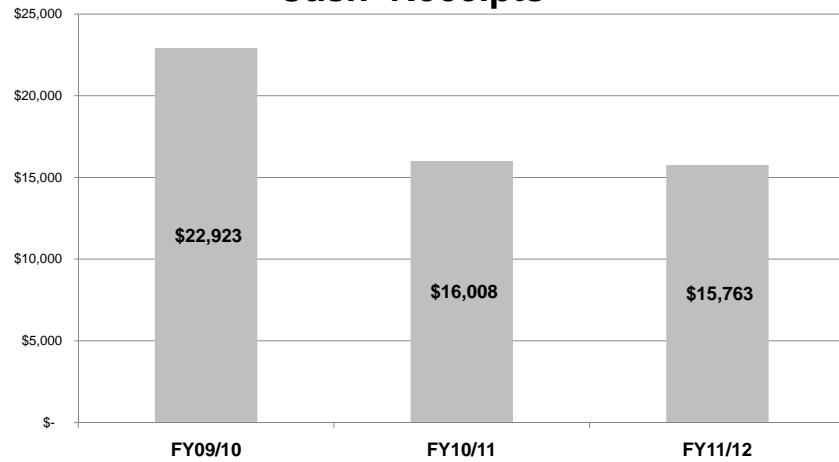
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## Henrico County Community Partners

### Cash Receipts



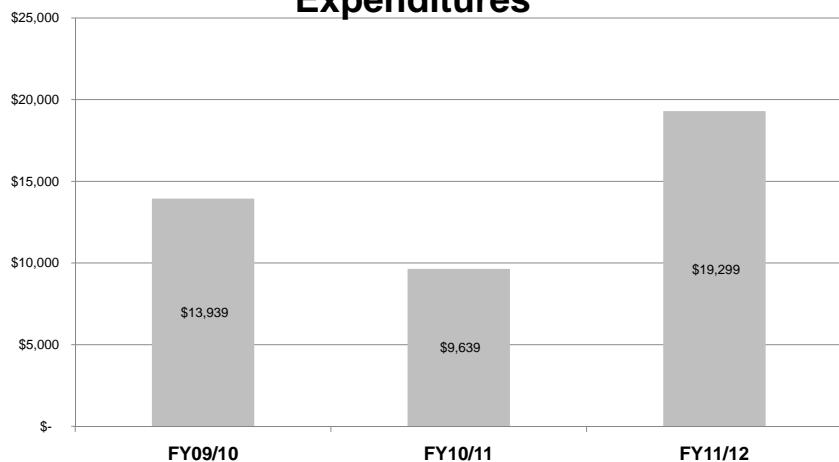
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## Henrico County Community Partners

### Expenditures



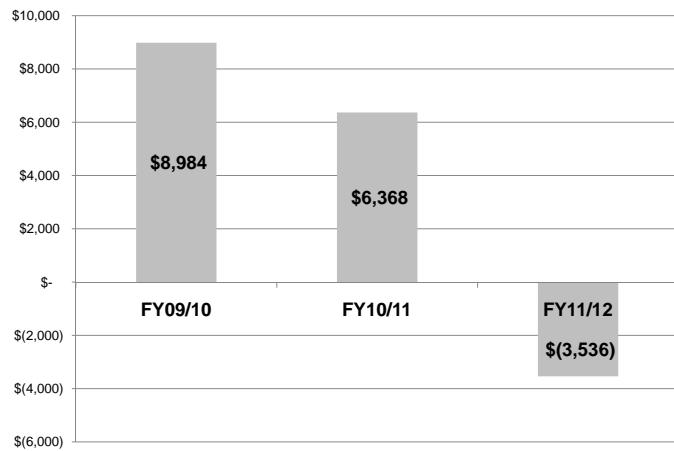
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## Henrico County Community Partners

### Receipts over/(under) Expenditures



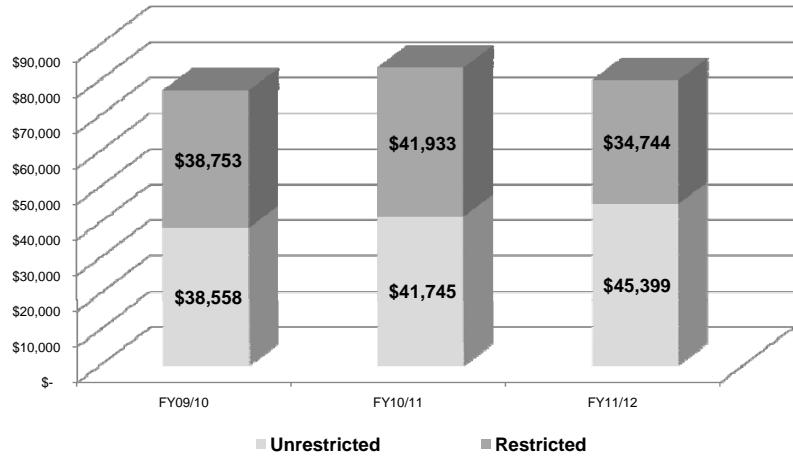
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## Henrico County Community Partners

### Net Assets



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## Issues

1. A deposit was made with no support of the source of the funds
2. There is no control over the receipt book
3. Document the correct donation amount
4. Maintain expenditure authorization documents for all payments
5. A written acknowledgment was not sent to a donor for a donation of \$500

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Issue1

## Issue1

A deposit was made with no support of the source of the funds



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Issue1

## CRITERIA

Accounting for Not-for Profit and computation of Public Support Percentage guidance which says:

- “Document all source of money receipts and purpose of the fund to ensure the funds are used for the program.”
- The source of income is also needed to compute the public support percentage on Form 990

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Issue1

## CONDITION

A deposit of \$500 was made with no documented source of the funds such as a copy of the check, letter, or other correspondence

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Issue1

## CAUSE

Henrico County Community Partners, Inc. did not make a copy of the check upon receipt prior to deposit of the money.



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Issue1

## EFFECT

Management was not initially able to substantiate that the money received was coded to the correct program which also affects management's ability to ensure accurate computation of the public support percentage on tax form 990.

*Note that management was able to identify the donor in the noted situation and was able to go back to them to obtain a copy of their canceled check to facilitate completion of the audit and verify proper recording.*

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Issue1

## RECOMMENDATION

All future deposits should include sufficient supporting documentation to substantiate the source of funds (e.g. copy of check, check stub, correspondence, etc.) so as to establish an audit trail, facilitate review, and ensure compliance with Internal Revenue Service requirements.

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Issue1

## Management Action Plan

All future deposits will include sufficient supporting documentation to substantiate the source of funds.

**Owner of Action plan:** All Authorized Depositors; Henrico County Community Partners, Inc. Treasurer & Secretary; & Kirby & Associates Accounting Staff

**Completion date:** 6/30/13 and as transactions are deposited

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Issue 2

## ISSUE 2

There is no control over the receipt book



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Issue 2



## CRITERIA

Best Practices for Money Receipts indicate that organizations should "Properly use, void, and control receipt books and account for all receipts."



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Issue 2



## CONDITION

Management was unable to provide copies of all sequentially numbered receipts used to document contributions received at a Stepping Stones event.

Copies of three receipts in the sequence for a July 14 event were not produced to substantiate either the amount received or that the receipt had been voided.

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Issue 2

## CAUSE

There was a change in management involved in coordinating the Stepping Stones Program. There was no transfer of knowledge and therefore, no clear delineation of the receipt book process.

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Issue 2

## EFFECT

Management is unable to substantiate that all money received at the event has been accounted for

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Issue 2



## RECOMMENDATION

Ensure proper use, voiding, and control of receipt books and account for all receipts. Maintain the carbon copies of all issued receipts and maintain all parts of voided receipts.



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Issue 2



## Management Action Plan

Management has created a receipt book protocol to ensure proper use, voiding, and control of receipt books and to account for all receipts.

**Owner of Action Plan:** All Authorized Users; Henrico County Community Partners, Inc. Treasurer & Secretary; & Kirby & Associates Accounting Staff will oversee use of the receipt book

**Completion Date:** 6/30/13 and prior to, during and upon conclusion of events.

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Issue 3



## ISSUE 3

Document the correct donation amount



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Issue 3



## CRITERIA

Best business practices suggest that “Donation receipts should be recorded for the correct amount.”

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Issue 3



## CONDITION

Henrico County Community Partners, Inc. received a check for \$100 for Project Lifesaver but only \$91 was sent to the Sheriff's Office for deposit in the separately maintained Project Lifesaver bank account causing them to only record that amount in their records.

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Issue 3



## CAUSE

Henrico County Community Partners, Inc. deducted \$9 for postage from the amount that was sent.

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Issue 3



## EFFECT

An understated donation was reported by Project Lifesaver in their accounting records.

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Issue 3



## RECOMMENDATION

Ensure all money received is transferred intact to Project Lifesaver to help ensure correct donation amounts are recorded.



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Issue 3

## Management Action Plan

Clarified with all parties: Henrico County Community Partners, Inc. Board Officers, Sheriff's Department, and Kirby and Associates Staff that all expenses incurred from mailings for Project Lifesaver will be assumed by Henrico County Community Partners, Inc.

**Owner of Action plan:** Sheriff's Office Comptroller; Henrico County Community Partners, Inc. Treasurer and Secretary; and Kirby & Associates Accounting Staff

**Completion date:** 6/30/13 and when requesting funds for postage

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Issue 4

## ISSUE 4

Maintain expenditure authorization documents for all payments



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Issue 4



## CRITERIA

Best business practices for Not-for-Profits suggest "Expenditures should be clearly specified and recorded to the programs related to the appropriate source of funding."

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Issue 4



## CONDITION

Several prior year adjustments were made to the financial records moving some prior year revenue and expenditure amounts between funding sources to correct classification of some transactions. The adjustments were made based on conversations between the third-party book keeper, new staff, and other staff of Henrico County Community Partners, Inc. using invoices, original check requisition forms, and separate unaudited records. Some original documentation dating back to 2007 had not been maintained during staff turnover.

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Issue 4



## CAUSE

Due to transition in the Commonwealth's Attorney's Office an internal review was performed of prior year transactions.

Turnover of management, incomplete transfer of prior documentation, and no clear, management-approved reimbursement/expenditure procedure for indicating the source/use of funding.

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Issue 4



## EFFECT

In the absence of all original support, there was some misunderstanding of the original intended source/use of funds for a few prior year transactions (e.g. an \$8000 deposit from 2007 was adjusted and the adjustment was ultimately reversed during the audit).

Future turnover in management and/or the book keeper could result in a similar situation if there is no clearly approved documentation of the intended source/use of funds and all documentation is not maintained.

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Issue 4



## RECOMMENDATION

Prepare expenditure/reimbursement procedure with written management authorization indicating the specific purpose of each expenditure and source of funding to ensure the amount is charged to the correct program and maintain all such documentation.



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Issue 4

## Management Action Plan

This issue has been resolved through reconciliation of revenue and accounts from past years. In utilizing technology, requests along with receipts will be communicated and information accepted via fax, e-mail or in written form. E-mail requests will be printed off and kept with receipts.

A meeting will be held with those authorized to request and receive funds to review the process. A list of those authorized by Henrico County Community Partners, Inc. to request reimbursement for expenditures will be provided to the Treasurer and Kirby & Associates Accounting Staff.

**Owner of Action Plan:** Henrico County Community Partners, Inc.  
Treasurer, Authorized Staff & Kirby & Associates Accounting Staff

**Completion Date:** February 15, 2013

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Issue 5



## ISSUE 5

A written acknowledgment was not sent to a donor for a donation of \$500



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Issue 5



## CRITERIA

Internal Revenue Service Charitable Organizations - Substantiation and Disclosure Requirements states:

“A donor can deduct a charitable contribution of \$250 or more only if the donor has a written acknowledgment from the charitable organization.”

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Issue 5



## CONDITION

Henrico County Community Partners, Inc. did not provide a written acknowledgment to a donor for a donation of \$500.

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Issue 5



## CAUSE

Due to Secretary oversight, which was discovered and has since been corrected by the donor receiving a letter acknowledging the \$500 donation made on 7/8/11 for the Stepping Stones Program held on 7/14/11.

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Issue 5



## EFFECT

The donor may not be able to deduct a charitable contribution of \$250 or more without a written acknowledgment from the charitable organization.

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Issue 5



## RECOMMENDATION

Ensure a written acknowledgment is sent to all donors for charitable contributions of \$250 or more.



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Issue 5

## Management Action Plan

1. We will ensure a written acknowledgement is sent to all donors for charitable contribution of \$250 or more.

**Owner of Action Plan:** Henrico County Community Partners, Inc. Treasurer, Secretary and Kirby & Associates Accounting Staff

**Completion date:** 6/30/13 and upon receipt of donations

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Issue 5

## Management Action Plan

2. We will use Henrico County Community Partners, Inc. Donation Contribution Form Letter.

**Owner of Action Plan:** Henrico County Community Partners, Inc. Secretary

**Completion date:** 6/30/13 and upon receipt of donations

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## Other Observations

**None**



# Opinion on Financial Statements

## COMMONWEALTH OF VIRGINIA COUNTY OF HENRICO

[www.co.henrico.va.us/audit](http://www.co.henrico.va.us/audit)

INTERNAL AUDIT OFFICE

Director – V. G. Crawley  
IT Auditor III –  
Sharon Thornton  
Auditor III -Sharon Wade  
Auditor III –  
Joyce Aikor-Richardson

### AUDIT REPORT ON FINANCIAL STATEMENTS

Henrico County Community  
Criminal Justice Board  
Richmond, Virginia

Board of Directors  
Henrico County Community Partners Inc  
Richmond, Virginia

We have audited the accompanying Statement of Net Assets Resulting from Cash Transactions of Henrico County Community Partners, Inc., a not-for-profit organization, as of June 30, 2012 and the related Statement of Cash Receipts Over Expenditures for the year then ended. These financial statements are the responsibility of Henrico County Community Partners, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; an audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, these financial statements were prepared on the cash basis of accounting, also used for federal information return reporting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As described more fully in Note 8, Henrico County Community Partners, Inc. will no longer provide a financial statement showing budgeted versus actual revenue and expenses for the funded project pursuant to the agreement with the Jenkins Foundation, grantor for Drug Court Healthy Lifestyle Initiative.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Net Assets of the Henrico County Community Partners, Inc. as of June 30, 2012 and the Statement of Cash Receipts Over Expenditures for the year then ended, on the basis of accounting described in Note 2. We issued an Internal Audit Report on Operations of the Henrico County Community Partners, Inc. dated January 31, 2013.

#### Henrico County Internal Audit

January 24, 2013  
Copy: Report Distribution List

(804) 501-4292 FAX (804) 501-5300 / 4301 EAST PARHAM ROAD / P.O. BOX 27032 / RICHMOND, VIRGINIA 23273-7032



**Henrico County Community Partners, Inc**  
**Statement of Net Assets**  
**Resulting from Cash Transactions**  
**June 30, 2012**

**ASSETS**

Current Assets	
Cash and Cash Equivalents	80,143
<b>TOTAL ASSETS</b>	<b>80,143</b>
<b>NET ASSETS</b>	
Unrestricted Net Assets	45,399
Temporarily Restricted Net Assets	
Drug Court	7,240
Drug Court Healthy Lifestyles \$17,300 Awarded	744
Domestic Violence Victim Assistance (PMECF) \$15,625 Awarded	2,824
Emergency Crime Victim Assistance \$21,000 Awarded	14,713
Project Lifesaver	9,125
Stepping Stone	98
Murder Victims remembrance	0
<b>Total Net Assets</b>	<b>80,143</b>
<b>TOTAL NET ASSETS</b>	<b>80,143</b>

See accompanying notes to financial statements.



**Henrico County Community Partners, Inc.**  
**Statement of Cash Receipts over Expenditures**  
**Year Ended June 30, 2012**

	Unrestricted	Temporarily Restricted						Totals
		Drug Court Healthy Lifestyles	Domestic Violence Victim Assistance	Emergency Crime Victim Assistance	Murder Victims remembrance	Stepping Stones	Project Lifesaver	
<b>RECEIPTS</b>								\$ -
<b>Direct Public Support</b>						\$ 1,210	\$ 725	\$ 500 \$ 2,435
<b>Indirect Public Support</b>								\$ -
<b>Government contributions</b>				\$ 2,700				\$ 2,700
<b>Program Service (mostly video sales)</b>	\$ 5,659						\$ 4,590	\$ 10,249
<b>Investment income</b>	\$ 379							\$ 379
<b>TOTAL RECEIPTS</b>	\$ 6,038	\$ -	\$ -	\$ 2,700	\$ -	\$ 1,210	\$ 5,315	\$ 500 \$ 15,763
<hr/>								
<b>EXPENDITURES</b>								
<b>Grants and similar amounts paid</b>	\$ 550	\$ 600	\$ 2,048	\$ 6,299	\$ 355	\$ 2,500	\$ 5,055	\$ 343 \$ 17,750
<b>Legal and Professional Fees</b>	\$ 1,425							\$ 1,425
<b>Printing, postage, shipping &amp; other</b>	\$ 116						\$ 8	\$ 124
<b>TOTAL EXPENDITURES</b>	\$ 2,091	\$ 600	\$ 2,048	\$ 6,299	\$ 355	\$ 2,500	\$ 5,063	\$ 343 \$ 19,299
<b>CASH RECEIPTS OVER/(UNDER) EXPENDITURES</b>	<b>\$ 3,947</b>	<b>\$ (600)</b>	<b>\$ (2,048)</b>	<b>\$ (3,599)</b>	<b>\$ (355)</b>	<b>\$ (1,290)</b>	<b>\$ 252</b>	<b>\$ 157</b> <b>\$ (3,536)</b>
Net assets, beginning of year	41,745	1,344	4,395	18,033	355	1,388	8,873	7,546 83,679
Adjustments (See Note 9)	(293)	-	477	279	-	-	-	(463) \$ -
Restated as of July 1, 2011	41,452	1,344	4,872	18,312	355	1,388	8,873	7,083 83,679
Net assets, end of year	<b>\$ 45,399</b>	<b>\$ 744</b>	<b>\$ 2,824</b>	<b>\$ 14,713</b>	<b>\$ -</b>	<b>\$ 98</b>	<b>\$ 9,125</b>	<b>\$ 7,240</b> <b>\$ 80,143</b>

See accompanying notes to financial statements.

## **Henrico County Community Partners, Inc.**

*Notes to the Financial Statements*

*Year ended June 30, 2012*

### **1. Nature of Business**

Henrico County Community Partners, Inc. (“Community Partners”) is a not-for-profit organization located in Henrico County, Virginia. Community Partners’ mission is to support the mission and goals of the Henrico County Community Criminal Justice Board (the “Justice Board”), member agencies and related organizations by fostering public/private partnerships to promote public safety, increase defendant accountability and rehabilitation, require victim restitution and reduce the level of criminal activity.

One of Community Partners’ programs, Project Lifesaver, is a program designed with the partnership of public safety organizations assisting those who care for victims of Alzheimer’s and other related mental dysfunctional disorders who become lost. These victims include the elderly and even the youngest in the community who are afflicted with Down syndrome and autism. Individuals wear wristbands that send signals to law enforcement agencies which help law enforcement officials find loved ones and bring them home safely.

### **2. Basis of Accounting**

The financial statements of Community Partners were prepared on a cash basis of accounting, used also for federal information return reporting. On a cash basis of accounting, receipts are recognized when cash is received and deposited. Expenditures are recorded in the accounting period when bills are paid. Because the financial statements are prepared on cash basis, Community Partners does not have any recorded liabilities. The dollar amounts on the financial statements were rounded for presentation purposes. Community Partners uses a July 1 to June 30 fiscal year.

### **3. Cash and cash equivalents**

Community Partners’ cash and cash equivalents are considered to be cash on hand, demand deposits, and/or short-term investments with original maturities of three months or less from date of acquisition.

### **4. Net Assets**

**Unrestricted** net assets are net assets that are neither temporarily restricted nor permanently restricted. They include all net assets with uses not restricted by donors or by law.

Unrestricted assets include bank checking deposits which can be used for programs services, management and general or fundraising purposes.

**Temporarily restricted** net assets are assets whose use is limited by either donor-imposed time restrictions or purpose restrictions. Time restrictions require resources to be used in a certain period or after a specified date. Purpose restrictions require resources to be used for a specific purpose.

Temporarily restricted assets include deposits which are restricted for the Drug Court Healthy Lifestyles Initiative; Domestic Violence Victim Assistance, a Philip Morris grant; Emergency Crime Victim Assistance, a fund restricted for Emergency Crime Victim Assistance; Stepping Stones, a fund restricted for saving bonds and scholarships to youth; and Project Lifesaver, a

## **Henrico County Community Partners, Inc.**

*Notes to the Financial Statements*

*Year ended June 30, 2012*

fund restricted for use in the program that aids victims and families who suffer from Alzheimer's disease, dementia, and autism.

### **5. Inventory**

On the cash basis of accounting, Community Partners does not maintain or carry any inventory, such as available video tapes for sale. Additionally, there are batteries, transmitters, and other items used in the Project Lifesaver program which are kept as backup or for when a new individual needs to be set-up. The disbursements for these items are recorded as program supplies and not inventory.

### **6. Income Taxes Status**

The Internal Revenue Service has determined that Community Partners is tax exempt under Section 501(c) (3) of the Internal Revenue Code.

### **7. Related Parties**

The Board of Directors manages the activities, property and affairs of Community Partners. The Articles of Incorporation require that the Board of Directors at all times be members of the Justice Board or be approved by the Justice Board. The Henrico County Board of Supervisors, as provided by State law, appoints the Justice Board.

The Henrico County Division of Fire has previously assisted in providing services for the Project Lifesaver program activities. They maintained separate funds which were used for their part of the overall program activities. Those amounts have never been reflected in the net assets presented on Community Partners' financial statements.

### **8. Grants**

Grants are recorded as revenue upon the receipt of cash. The organization reports grants as temporarily restricted if they are received with grantor stipulations. When a grantor's restriction is met, temporarily restricted net assets are considered released from restrictions and are shown as expenditures in the accompanying statement of cash receipts over expenditures.

Pursuant to an agreement between the Philip Morris Employee Community Fund and Henrico County Community Partners Inc's/Victim-Witness, Community Partners is required to report verbally on the use of the grant funds for the program until the funds are depleted.

Pursuant to an agreement between the Jenkins Foundation and Community Partners, Community Partners will no longer provide a financial statement showing budgeted versus actual revenue and expenses for the funded project but continue to use the grant funds for the project until the funds are depleted.

### **9. Adjustment to Beginning Net Assets**

The net assets as of the beginning of the fiscal year have been adjusted to reflect corrections made to the classification of four transactions recorded in prior years. The corrections are between unrestricted funds and categories of temporarily restricted funds; reflect Community Partners' intent for the source/use of funds; and have no net impact on the total balances of cash or net assets.



## Closing

- Appreciated cooperation
- Follow up on action plans will take place during the next annual audit.

County of Henrico Internal Audit

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## Document Distribution

Audit Committee (Mr. Glover, Mrs. O'Bannon, County Manager)	Board of Supervisors, Non-Audit Committee
Henrico County Community Criminal Justice Board	Henrico County Community Partners, Inc.
Internal Audit Staff	

Henrico County Internal Audit

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## Audit Contact Information

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