



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

October 3, 2005

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on Beyond Welfare, Inc., in Ames, Iowa.

Beyond Welfare, Inc. was organized in 2001 as a non-profit corporation for charitable and educational purposes. The mission of Beyond Welfare, Inc. is to build the community toward the goal of eliminating household and systemic poverty.

Vaudt reported Beyond Welfare, Inc.'s public support and revenues totaled \$455,320 for the eighteen month period ended June 30, 2004. Public support and revenue consisted primarily of grants of \$303,525 and contributions of \$89,250. Expenses totaled \$390,091 for the eighteen month period ended June 30, 2004, and included \$112,465 in program expenses and \$197,886 in personnel expenses.

This report contains recommendations to Beyond Welfare, Inc.'s officials. For example, Vaudt recommended Beyond Welfare, Inc. segregate duties to the extent possible to provide maximum internal control over the accounting system and cash procedures. Beyond Welfare, Inc. personnel responded positively to these recommendations indicating additional procedures and controls were being implemented.

A copy of the audit report is available for review in the Office of Auditor of State and the Executive Director's office.

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BEYOND WELFARE, INC.

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS**

EIGHTEEN MONTHS ENDED JUNE 30, 2004

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Beyond Welfare, Inc.

Board of Trustees

<u>Name</u>	<u>Title</u>
Tamaria Wright	President
Stephen Aigner	Vice President
Sieglinde Piror	Secretary
Brenda Catron	Treasurer
Jan Beran	Member
Cindy Blessing	Member
Dr. George Jackson	Member
Noumoua Lyuaolu	Member
Lois Smidt	Executive Director

Beyond Welfare, Inc.



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Independent Auditor's Report

To the Board of Trustees of Beyond Welfare, Inc.:

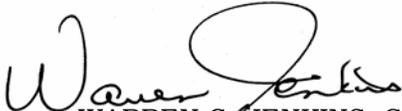
We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Beyond Welfare, Inc. as of and for the eighteen month period ended June 30, 2004. These financial statements are the responsibility of Beyond Welfare, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beyond Welfare, Inc. at June 30, 2004, and the changes in its financial position and its cash flows for the eighteen month period ended June 30, 2004 in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also included our report dated July 29, 2005 on our consideration of Beyond Welfare, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 29, 2005

Beyond Welfare, Inc.

Financial Statements

Beyond Welfare, Inc.
Statement of Financial Position
June 30, 2004

Assets

Cash and cash equivalents	\$ 92,809
Accounts receivable	4,077
Grants receivable	27,699
Pledges receivable	4,590
Capital assets, less accumulated depreciation of \$9,462	<u>2,485</u>
Total assets	<u><u>\$ 131,660</u></u>

Liabilities and Net Assets

Liabilities:	
Accounts payable	\$ 8,013
Payroll tax payable	2,317
Compensated absences	<u>6,192</u>
Total liabilities	<u>16,522</u>
Net assets:	
Temporarily restricted	100,984
Unrestricted	<u>14,154</u>
Total net assets	<u>115,138</u>
Total liabilities and net assets	<u><u>\$ 131,660</u></u>

See notes to financial statements.

Beyond Welfare, Inc.

Statement of Activities

For the eighteen month period ended June 30, 2004

Public support and revenues:

Public support:

Contributions, including in-kind contributions of \$25,690	\$ 89,250
Grants	303,525
	<u>392,775</u>

Revenues:

Training fees	47,609
Insurance settlement proceeds	6,112
Miscellaneous	8,824
	<u>62,545</u>
Total public support and revenues	<u>455,320</u>

Expenses:

Personnel	197,886
Program	112,465
Accounting fees	19,442
Insurance	3,174
Telephone	5,644
Wheels to Work program	12,816
Travel, meals and lodging	13,124
Occupancy	6,763
Equipment	3,615
Depreciation	3,324
Miscellaneous	11,838
	<u>390,091</u>

Change in net assets	65,229
Net assets beginning of period	<u>49,909</u>
Net assets end of period	<u>\$ 115,138</u>

See notes to financial statements.

Exhibit C

Beyond Welfare, Inc.

Statement of Cash Flows

For the eighteen month period ended June 30, 2004

Cash flows from operating activities:	
Cash received from state sources	\$ 33,912
Cash received from local sources	77,561
Cash received from Foundations	192,796
Cash fees for services	42,189
Contributions received	58,970
Miscellaneous cash received	10,493
Cash paid for goods and services and to employees	<u>(347,255)</u>
Net cash provided by operating activities	68,666
Cash flows from capital activities:	
Acquisition of equipment	(114)
Cash and cash equivalents beginning of period	<u>24,257</u>
Cash and cash equivalents end of the period	<u><u>\$ 92,809</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	\$ 65,229
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	3,324
(Increase) in pledges receivable	(6,760)
(Increase) in grants receivable	(6,123)
(Increase) in accounts receivable	(3,106)
Increase in accounts payable	8,013
Increase in payroll tax payable	1,897
Increase in compensated absences	<u>6,192</u>
Net cash provided by operating activities	<u><u>\$ 68,666</u></u>

See notes to financial statements.

Beyond Welfare, Inc.

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

A. Reporting Entity

Beyond Welfare, Inc. was organized in 2001 as a non-profit corporation for charitable, educational and research purposes. It was created to build the community towards the goal of eliminating household and systemic poverty in Story County. The primary source of public support is grants and private donations.

Beyond Welfare, Inc. is exempt from tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for charitable, religious or educational purposes.

B. Fund Accounting

Beyond Welfare, Inc. accounts for all resources over which it has discretionary control to use in carrying out the operations of the organization in accordance with the limitations of its charter and bylaws.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recorded when earned and expenses are recorded when the liability is incurred.

Purchases of equipment providing future benefits are capitalized and depreciated.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Beyond Welfare, Inc. and changes therein are classified and reported as follows:

Temporarily restricted net assets – Net assets whose use has been limited by donors a) to later periods of time or after specified dates or b) to specified purposes.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Revenues and expenses are reported as increases or decreases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions.

E. Assets, Liabilities and Net Assets

Cash and Cash Equivalents – For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Capital Assets – Purchased equipment is stated at cost. Donated capital assets are valued at the estimated fair value on the date donated. Depreciation is computed using the straight-line method (half year convention) over the estimated useful life of 5 years. No interest costs were capitalized since there were no qualifying assets.

Compensated Absences – Employees accumulate a limited amount of earned but unused vacation benefits payable. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2004.

(2) Employee Benefit Plan

Beyond Welfare, Inc. offers a SIMPLE IRA plan provided by AEGON/Transamerica Investor Services, Inc. Under the plan, an employee can defer up to \$9,000 per year to their SIMPLE IRA. Investments grow tax-deferred, along with employer contributions. Beyond Welfare, Inc. provides 3:1 match for each participating employee's deferral, up to 1% of the employee's compensation. Plan expenses incurred by Beyond Welfare during the 18 months ended June 30, 2004 were \$4,104.

(3) Capital Assets

A summary of capital assets is as follows:

	Jan 1, 2003	Additions	Deletions	Jun 30, 2004
Capital assets, depreciable:				
Equipment	\$ 1,263	2,284	-	3,547
Vehicles	8,400	-	-	8,400
	<u>9,663</u>	<u>2,284</u>	<u>-</u>	<u>11,947</u>
Accumulated depreciation:				-
Equipment	258	804	-	1,062
Vehicles	5,880	2,520	-	8,400
	<u>6,138</u>	<u>3,324</u>	<u>-</u>	<u>9,462</u>
	<u>\$ 3,525</u>	<u>(1,040)</u>	<u>-</u>	<u>2,485</u>

(4) Risk Management

Beyond Welfare, Inc. is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

(5) Suited for Work

Suited for Work Clothing Closet (Suited for Work) is a program of Beyond Welfare, Inc. that promotes the self-sufficiency of welfare and low-income women and men in Story County who are actively seeking employment. Suited for Work provides free clothing for interviews and for subsequent employment once a job has been secured. Clients are referred to Suited for Work via a network of social service agencies through a voucher referral program. The goal is to provide a resource for women and men to obtain high quality clothing that will help make a positive impression during an interview and on the job.

Because of the difficulty in valuing donated items and subsequent dispersal to clients, Beyond Welfare, Inc does not report this activity in the financial statements. Any cash donations and subsequent use of those donations is reflected in the financial statements.

Beyond Welfare, Inc.



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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Trustees of Beyond Welfare, Inc.:

We have audited the financial statements of Beyond Welfare, Inc. as of and for the eighteen month period ended June 30, 2004, and have issued our report thereon dated July 29, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Beyond Welfare, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Beyond Welfare, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Beyond Welfare, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Beyond Welfare, Inc. and other parties to whom Beyond Welfare, Inc. may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Beyond Welfare, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 29, 2005

June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – During our review of the internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of Beyond Welfare, Inc.'s financial statements. We noted the following areas for which no compensating controls exist:

- (1) Accounting system – performance of all accounting functions and custody of assets.
- (2) Cash – preparing bank account reconciliations, cash receipt and disbursement functions, handling and recording cash. Bank statements are not delivered unopened to the reconciler.
- (3) Receipts – collecting, depositing, journalizing and recording.
- (4) Receivables – billing, collecting, depositing and recording.
- (5) Disbursements – checking signing and disbursement approval.
- (6) Computer usage – performance of all general accounting functions and overall control of data input and output, including journal entries.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Board should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Policies and procedure manual drafted for Board approval in August 2005 lays out segregation of duties and defines operating procedures, e.g.:

Bank statements will be delivered unopened, reconciled by one person, reviewed by a Board member.

Management receives monies and places restrictive endorsement on checks. Bookkeeper prepares and posts deposit; management receives posted documents with bank receipt.

Any check over \$5,000 requires two authorized signatures.

The Finance Committee approves expenditures and reviews receivables.

Quick book “audit trail” feature will be used. A newer computer system is needed in order run this feature efficiently. A new system is being investigated.

Conclusion – Response accepted.

Beyond Welfare, Inc.

Schedule of Findings

June 30, 2004

(B) Information Systems – During our review of internal control, the existing control activities in the computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the computer based systems were noted:

- The system is unable to document who prepared, recorded or changed a transaction.
- The Board does not have written policies for:
 - Use of passwords, password privacy and confidentiality.
 - Logging off unattended computers.
 - Ensuring only software licensed to Beyond Welfare, Inc. is installed on computers.
 - Usage of the Internet.
 - A disaster recovery plan.

Recommendation – The Board should develop written policies addressing the above items to improve control over computer-based systems.

Response – Usage for all electronic information is spelled out in the policies and procedure manual that has been drafted for Board approval August 2005. Procedures to correct the above items are detailed in the manual.

Conclusion – Response accepted.

(C) Capital Assets – The following were noted regarding capital assets:

- A physical observation of capital assets has not been performed periodically and reconciled to the detailed capital asset records by employees having no responsibility for the assets.
- The Board does not have a written policy regarding the disposal of capital assets, including a formalized process for approving asset disposals.
- The Board has not established a capitalization threshold policy for capital assets.
- Identifying tags are not placed on all capital assets.

Recommendation – Capital assets should be tested periodically and reconciled to the detailed capital asset records by employees having no responsibility for the assets. The Board should adopt written policies and procedures for the disposition of all capital assets, whether by trade, sale or other method. The policy should require written and timely approval of all disposals, identify the individuals with the authority to approve

Beyond Welfare, Inc.

Schedule of Findings

June 30, 2004

disposals and outline the procedures to be followed in disposing of capital assets. Policies should be established and implemented to establish capitalization thresholds for capital assets and for requiring identification tags to be placed on all capital assets.

Response – Policies and procedure manual drafted for August 2005 Board approval. Capital assets policies are included.

Capital assets have been inventoried and permanently marked with agency name.

Conclusion – Response accepted.

- (D) Accounting Procedures Manuals – We encourage the development of office procedures and a standardized accounting manual. The manual should provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Recommendation – An office procedures and accounting manual should be prepared.

Response – Policies and procedure manual drafted for August 2005 Board approval. Accounting procedures are part of this manual.

Conclusion – Response accepted.

- (E) Authorization of Timesheets – Timesheets for part-time workers are not properly authorized.

Recommendation – Authorization for all timesheets should be documented.

Response – Policies and procedure manual drafted for August 2005 Board approval. Timesheet approval is included in the manual. All timesheets are now being authorized.

Conclusion – Response accepted.

- (F) Bank Account Signature Cards – A previous Board member is still listed as an authorized signer for the savings account.

Recommendation – The Board should update bank signature cards to remove individuals who are no longer authorized to transact business for the organization.

Response – Done. Will do this annually when new Board members are elected.

Conclusion – Response accepted.

Beyond Welfare, Inc.

Schedule of Findings

June 30, 2004

- (G) Security of Unused Checks – Unused checks are kept on a shelf in the office and access is not always limited.

Recommendation – Unused checks should be locked in a secure location.

Response – Done. Now locked up.

Conclusion – Response accepted.

- (H) Expense Authorization and Support – Payments to vendors are to be authorized by the Executive Director or the Community Resource Coordinator (CRC). Several items tested did not have proper authorization and were not adequately supported.

Recommendation – The Board should ensure policies on authorization of expenses are implemented. All expenses should be supported by original invoices or other supporting documentation.

Response – Authorization of payments is now approved by the executive director or finance committee. All supporting documentation is required prior to approval.

Policy and procedure manual drafted for August 2005 Board approval. Authorization of expenses and supporting details are part of this manual.

Conclusion – Response accepted.

- (I) Inadequate Records for Donated Vehicles (Wheels to Work Program) – Records for donated vehicles for calendar year 2003 could not be located.

Recommendation – The Board should ensure adequate records are maintained and retained for the vehicle donation program.

Response – Currently, the Wheels to Work Program is on hold. Beyond Welfare, Inc. is waiting for legal interpretation of the new IRS tax laws regarding donating vehicles to non-profit organizations.

Policies and procedure manual drafted for August 2005 Board approval includes written standards and procedure for vehicle donations and disbursement of vehicles. Files for keeping card donation records have been purchased and a system for maintaining records established.

Conclusion – Response accepted.

- (J) Employees Not Bonded – Persons handling cash and checks are not bonded.

Recommendation – The Board should consider bonding persons who handle cash and checks.

Response – Information regarding bonding will be presented for August 2005 Board consideration.

Conclusion – Response accepted.

June 30, 2004

Other Findings Related to Statutory Reporting:

- (1) Payroll Withholding – W-4s to support payroll withholdings for employees were not on file.

Recommendation – W-4s should be completed and kept on file to support payroll withholdings.

Response – This has been corrected.

Conclusion – Response accepted.

- (2) Employee vs. Independent Contractor – Beyond Welfare, Inc. pays various persons for services throughout the year. There is no documentation of the Board's analysis/conclusion as to why certain persons are considered employees and why some are considered independent contractors.

Recommendation – Beyond Welfare, Inc. should review Internal Revenue Service (IRS) form SS-8 and document determination of employee vs. independent contractor for each individual or type of service. The Board may need to contact the IRS for assistance in this determination.

Response – IRS form SS-8 has been reviewed. Policies and procedure manual drafted for August 2005 Board approval includes clear distinction between employee status versus contractor status.

Conclusion – Response accepted.

- (3) Flexible Benefits – Beyond Welfare, Inc. reimbursed employees for medical expenses as if they were a part of an approved Cafeteria Plan which would allow certain of the reimbursements to be free from federal taxation. However, the plan was not properly established pursuant to Internal Revenue Service (IRS) rules and, accordingly, reimbursements should have been a taxable benefit and included on the employees' W-2s, subject to applicable taxes.

Recommendation – The Board should contact the Internal Revenue Service (IRS) to determine the disposition of this matter.

Response – Benefit plan has changed and is managed by a third party manager, TASC (Total Administrative Services Corporation) out of Des Moines, Iowa.

Work with IRS is in progress to determine reimbursable versus taxable expenditures for the period in question. Once determined by the IRS, Beyond Welfare, Inc. will report taxable income as such. Beyond Welfare, Inc. will pay appropriate payroll taxes and people employed during the period in question will re-file income tax returns and pay taxes appropriately.

Conclusion – Response accepted.

- (4) Board Minutes – Chapter 504A of the Code of Iowa states the Board should meet in accordance with established bylaws and actions of the Board should be documented. The minutes for seven board meetings could not be located. We were unable to

Beyond Welfare, Inc.

Schedule of Findings

June 30, 2004

determine whether the Board met and minutes were not kept or if the Board did not meet and, therefore, was in violation of the bylaws.

The minutes do not always document significant personnel matters, including salary approvals or other significant actions taken by the Board.

Recommendation – A minutes record of each Board meeting should be maintained and retained. The Board should also formally take action on all decisions related to personnel matters and accounting procedures and document action in minutes.

Response – Done. Board secretary position and procedure for maintaining records is established.

Conclusion – Response accepted.

- (5) Retirement Plan Match – Beyond Welfare, Inc. participated in a Savings Incentive Match Plan for Employees (SIMPLE) retirement plan. The SIMPLE plan is in the form of an Individual Retirement Account (IRA) for each employee. The SIMPLE retirement plan allows employees to make elective contributions to an IRA up to a maximum annual deferral amount established by the IRS. The organization is required to match the employee's contribution dollar-for-dollar up to three percent of the employee's compensation. During the 18 month period under audit, the organization matched more than the 1:1 match, resulting in contributions which may be considered taxable wages to the employees.

Recommendation – Beyond Welfare should contact the Internal Revenue Service (IRS) to determine the disposition of this matter.

Response – Done. Consulted with Fringe Benefits Design and have implemented a 401K Safe Harbor Plan. Past error was corrected by recognizing the contribution overage as taxable income and treating it as such.

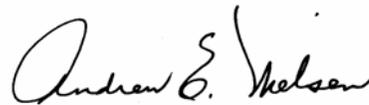
Conclusion – Response accepted.

Beyond Welfare, Inc.

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Patricia J. King, CPA, Senior Auditor II
Donna R. Neubauer, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State