![C:\Users\henry\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.IE5\BF95AMPT\MP900400964[1].jpg]()Audit conducted by Henry M. Tucker, Financial Auditor

**DC FASHION FOUNDATION (DCFF) AUDIT REPORT**

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All references to the Government Accountability Office (GAO) Government Auditing Standards (GAGAS Yellow Book) have been stated to reflect the December 2011 Revision of the Government Auditing Standards. This audit was conducted in accordance with GAGAS Yellow Book standards.

**OBJECTIVES:**

The primary objectives of the audit will be to determine whether:

1. The DC Fashion Foundation (DCFF) internal controls and operations were performed adequately over the following programs:
	* + Camp Runway funded by DOES;
		+ Fashionably Business funded by DHCD;
		+ Culture Couture funded by the DC Commission on Arts and Humanities; and
		+ The DC Fashion Incubator also funded by the DC Commission on Arts and Humanities.
2. The overall operations and governance of the DCFF are adequate and efficient.

**AUDIT SCOPE AND PROCEDURES:**

The scope of the audit will be from October 1, 2012 to the present.

The audit will involve: a review of relevant laws, regulations, contracts, policies and procedures; an analysis of relevant documents, databases, and other systems; interviews with staff and responses to the draft report from Board members; and on-site observations and walk-throughs of relevant processes.

**DCFF MISSION AND RESPONSIBILITIES**

The DCFF was created to support the Washington, DC area fashion business community through educational programs, workforce training initiatives, and creating networking and mentoring opportunities for aspiring fashion professionals and entrepreneurs.

**SUMMARY OF FUNDS DISBURSED TO THE DC FASHION FOUNDATION**

**TABLE I**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Program Name** | **Program Description** | **Funding Agency** | **Funds for 2014** | **Funds for 2013** | **Total** |
| Camp Runway | Development of fashion industry workforce skills | DOES | $32,000.00 | $32,000.00 | **$64,000.00** |
| Fashionably Business | Skill development for the fashion industry entrepreneur  | DHCD | $102,500.00[[1]](#footnote-1) | $75,000.00[[2]](#footnote-2) | **$177,500.00** |
| Cultural Couture | Program for exhibits combining the arts and fashion | DC Commission on the Arts and Humanities | $2,500.00[[3]](#footnote-3) | $75,500.00[[4]](#footnote-4) | **$78,000.00** |
| DC Fashion Incubator (DCFI) @ Macy’s[[5]](#footnote-5) | Training and mentoring for fashion entrepreneurs  | DC Commission on the Arts and Humanities | N/A | N/A | **$0.00** |

Table I indicates that from fiscal years 2013 to 2014 the DCFF received District funds totaling $64,000.00 from DOES to support the Camp Runway program; $177,500.00 from DHCD supporting the Fashionably Business program; and $78,000.00 from the DC Commission on the Arts and Humanities in support of the Cultural Couture program. As a result, the DCFF received a total of $319,500.00 in District funds to support the development and operation of three (3) fashion-related developmental programs for the advancement of District residents in the fashion and arts community. An agreement for the DCFF DC Fashion Incubator at Macy’s has been signed; however, funds for the program haven’t been received yet and a start date will be implemented in the near future.

**DCFF FASHION PROGRAM FUNDS MANAGEMENT**

The DCFF received District funds using the request for proposal (RFP) process and all funds received initially for three DCFF programs are all under the purview of the DCFF. DCFF has established the management of funds for the three programs outlined above in the following manner:

**DCFF FUNDS MANAGEMENT**

**TABLE II**

Various Funding District Agencies

DC Fashion Foundation

DC Fashion Incubator\*

Cultural Couture

Fashionably Business

Camp Runway

DCFF Bank Account

\*Funds intended for this program will be held in a separate bank account

Table II represents the flow of funds from District agencies to the DCFF. Upon the receipt of funds from District agencies which are distributed directly to DCFF, the funds are disseminated to programs under the DCFF organization. Funds for three of the four programs are then deposited and managed by DCFF’s bank account.

Once the funds are received for the DC Fashion Incubator at Macy’s, they will be deposited and managed by a bank account separate from the account holding the three other programs. Funds for this particular account will far exceed the funds given for the three other DCFF programs.

**DCFF BOARD PROCESS AND REQUIREMENTS**

DCFF has created a board for support and governance over the organization. The board currently consists of three (3) members. Their roles are: 1) Chairperson, 2) Board Secretary, and 3) Board Treasurer.

In order to become a DCFF Board member an applicant must submit a letter of interest to the Board President and should preferably include the applicant’s background along with their resume. Once the application is received it is sent to the Board’s Committee for Board Development for review. If the applicant is taken into consideration to become a member then he/she must fill out an extensive Board member questionnaire. The applicant then will go through the interview process by the Chair and other Board members. If the applicant is accepted then he/she must sign the DCFF Board Member Agreement Form (See attachment #1) and will attend their first Board meeting.

There are membership requirements that Board members[[6]](#footnote-6) must follow. Those requirements are, but not limited to, the following:

* Be knowledgeable of the DCFF operations and provide oversight;
* Be an integral Board member that provides financial and programmatic oversight for DCFF;
* Attend regularly scheduled Board meetings in a timely and professional manner; and
* Participate in certain fundraising activities such as:
	+ - * + Host a fundraising event;
				+ Promptly pay the $1,000.00 one year term Board fee;
				+ Enhance the Board with integral and potential Board members;
				+ Buy tickets to fundraising events;
				+ Network potential fundraisers;
				+ Purchase a table for the Annual Gala/Fashion Ball; and
				+ Conduct tri-yearly strategic planning meetings and set yearly priorities with the DCFF President for the implementation of DCFF mission and goals.

Board members contribute to the success of the DCFF organization by fully adhering to the requirements set forth in the Board agreement.

**FINDINGS AND RECOMMENDATIONS**

**DCFF FUNDS FOR THREE SMALL PROGRAMS ARE MANAGED WITH ONE BANK ACCOUNT**

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government “Examples of Control Activities: Accurate and Timely Recording of Transactions and Events” pg. 15 states: **“The entire process or life cycle of a transaction or event should be recorded from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.”**

Further, as a best financial operation practice and precautionary measure, **it is recommended that funds from separate programs are kept in separate bank accounts and not commingled.**

DCFF funds for three (3) different programs are maintained in one bank account; however, these funds are minimal and the audit revealed that the funds are not compromised or mismanaged. Further, the fourth program which has not been implemented is currently not managed through this bank account. However, after interviews with the DCFF President, she stated that future plans for the financial management of the DC Fashion Incubator at Macy’s will be held in a separate account due to the increased amount of funds as opposed to the other three programs and its affiliation with the international fashion community.

The adequate management of program funds are attributed to DCFF’s internal control methods implemented by the administrative staff and President.

The condition of commingling funds, which includes poor fund identification, could potentially limit the Auditor’s ability to determine if organizations are complying with District funding restrictions and increase the risk of fraud, abuse, and mismanagement.

**AUDITOR NOTICE**

The Auditor’s review revealed that while the DCFF funds for three (3) different programs are maintained in one bank account; the DCFF President and CEO won’t include funds for the DC Fashion Incubator at Macy’s in a bank account separate from the account used for the management of the three (3) other DCFF programs.[[7]](#footnote-7) (**SEE ATTACHMENT #1 DCFF RESOPNSE)**

**BOARD MEMBERS ARE NOT ACTIVELY INVOLVED WITH THE OPERATIONAL AND FINANCIAL MISSION OF THE DCFF**

The Government Accountability Office (GAO) Government Auditing Standards (GAGAS Yellow Book) Appendix I “Supplemental Guidance” section A1.06 pg. 188 states: **“Those charged with governance are responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process, subject matter, or program under audit including related internal controls.** In some entities, multiple parties may be charged with governance, including oversight bodies, members or staff of legislative committees, boards of directors, audit committees…..”

The Government Accountability Office (GAO) Government Auditing Standards (GAGAS Yellow Book) Appendix I “Supplemental Guidance” section A.06(b) pg. 180 **describes a control deficiency as: “Ineffective oversight by those charged with governance of the entity’s financial reporting, performance reporting, or internal control, or an ineffective overall governance structure.”**

Further, Auditor’s best practices provides that an organization: “establish and maintain a system of quality control that is designed to provide the organization with reasonable assurance that the **organization and its personnel comply with professional standards and applicable legal, regulatory, and organizational requirements.”**

DCFF Board members have signed agreements and agreed to certain requirements that accompany their role as a Board member. However, after careful review of Board minutes, Board invoices for fees and other documentation, the audit revealed that some members failed to fully commit to their responsibilities within this capacity.

Circumstances such as these could potentially be caused by external matters taking precedence over roles and responsibilities of Board members; miscommunication regarding the Board members roles leading to members responsibilities being misconstrued; and/or total disregard of the commitment of Board members for the enhancement of the mission and goals of the DCFF.

As a Board member, the lack of full commitment for the enhancement of the governance and structure of the DCFF could potentially lead to:

* Weak internal controls;
* Decreased future funding from DC or Federal funding entities;
* Reputational damage;
* Inadequate training for District residents dedicated to becoming involved in the fashion industry;
* An ineffective governance structure; and
* An inability to sufficiently compete with similar organizations within the fashion industry.

**RECOMMENDATIONS**

1. The DCFF President implement policies and procedures addressing quarterly quality control reviews that:
	* + - Monitor Board member activities;
			- Update policies and procedures with any new conditions resulting from the quarterly Board member activity review; and
			- Require the signatures of Board members and the DCFF President of any new and updated policies and procedures addressing Board member activities.
2. Board members adhere and comply with all terms and conditions of the DCFF Board concerning its advancement and the efficiency of the overall governance structure of the organization.

cc: Christine Brooks-Cropper,

 DCFF President;

Richard Glover,

DCFF Board Member;

Chanel Essence,

DCFF Board Member; and

Sara Mokhtari,

 DCFF Board Member

 Signature Date

Henry M. Tucker Henry M. Tucker 7/30/14

Christine Brooks-Cropper

Richard Glover

Sara Mokhtari

Chanel Essence

**ATTACHMENT #1**

**President Audit Response**

Henry only response I have is the President/CEO already planned to set up separate account for DC Fashion Incubator at Macy's project because of the international funds to be accepted something we discussed during audit but the DC Fashion Incubator project is outside the scope of the audit because it has not been implemented yet.... doesn't really need to be mentioned but because it was...please state this is a measure the President was already considering to implement and the auditor agrees to do the same or good recommendation to do. Then reading like a finding when it is not

Second you stated to set up bank accounts for each program which is five for DCFF but the organization and legal entity is DCFF. The point of book-keeping or retaining an accountant is to keep the program accounts and accounting correct. Plus the funds are on cost-reimbursement so commingling can not happen. Once funds are put into bank account because we are on accrual accounting..CFO/Account will create a program name on his accounting excel chart which he use Quick Books and the cost expended can only be for that category approved by granting agency and cancelled checks and receipts are submitted for reimbursement of funds. So no way the nonprofit can commingle funds when the nonprofit has to spend its own funds first to get reimbursement for program services offered. The government process is complete program service first get paid later. and when request for funds are submitted to government agency for reimbursement the grant monitor and CFO of that agency review cancelled checks and receipts to fit into categories authorized for reimbursement and signed off by five people before a check is cut to the nonprofit. So again no way commingling of funds can happen. not possible!

My response...thanks. i agree with what stated about Board of Directors and lack of and they should evaluate the president annually the same way the board of directors is evaluated annually. Last evaluation and new contract for President was 2014 renewal and before that 2009 when DCFF was created. President evaluation every 5 years should happen every year for performance and outcome/impact. but again another responsibility of  the Board of Directors that has not happen and should. Need more and truly committed Board of Directors who will honor the Board Agreement and By-laws that they sign when take position. Need recommendation how to enforce this. Because clearly a screening process is in place and a recruitment to placement process and the board of directors are evaluated. So how do one improve a non-profit board of directors?

let me know when i can get final copy of external audit with signature on your letter head for files.

Best

Christine Brooks-Cropper

President

DC Fashion Foundation

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1. Funds received during October 1, 2013 – September 30, 2014 [↑](#footnote-ref-1)
2. Funds received during October 1, 2012 – September 30, 2013 [↑](#footnote-ref-2)
3. Funds received during October 1, 2013 – September 30, 2014 [↑](#footnote-ref-3)
4. Funds received during October 1, 2012 – September 30, 2013 [↑](#footnote-ref-4)
5. Agreement has been signed for this program but a start date has not been implemented as of yet, nor have funds been received. [↑](#footnote-ref-5)
6. DCFF Board members are able to serve consecutively for three years; however, must resign from the board afterwards. Also, Board members are evaluated after serving on the Board for one year. [↑](#footnote-ref-6)
7. Per interview and discussion with President/CEO Christine Brooks-Cropper on Thursday August, 14, 2014; this is a preconceived measure that will be put in place upon the launching and future funds management system for the DC Fashion Incubator at Macy’s. The Auditor complies with this action and agrees that this method will be sufficient going forward. [↑](#footnote-ref-7)