

Board of Directors
The Union Project

In planning and performing our audit of the financial statements of The Union Project (Project) as of and for the year ended August 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Project's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Project's financial statements will not be prevented, or detected and corrected on a timely basis.

Comments marked with an asterisk (*) were communicated in prior years.

We consider the following deficiencies in the Project's internal control to be material weaknesses:

Financial Reporting System*

As a part of the audit process, the auditors prepare the financial statements from information provided by the Project. The financial statements are subsequently reviewed by management. Auditing standards place emphasis on determining an entity's ability to prepare their own external financial statements, including footnote disclosures, in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to non-profit entities. Accordingly, reliance on auditors to ensure comprehensive financial reporting is considered to be an internal control deficiency. The reliance upon auditors in producing GAAP financial statements is very common for small non-profit organizations such as the Project, due to a lack of sufficient resources to assist in producing these financial statements on their own.

In addition, we identified material adjustments which were not initially identified by the Project's financial reporting system. These adjustments mainly included rolling forward net assets from the prior year, adjusting debt balances, and adjusting depreciation expense.

We understand that the Project may determine that it does not have the resources available to fully prepare its own external financial statements in accordance with GAAP. We understand that the Project may determine that it does not have the resources available to fully eliminate the deficiency outlined

above and recommend that the Project explore having a member of the Board of Directors or other volunteer with the appropriate expertise be part of the internal control structure of financial reporting.

Disbursements*

During our testing of disbursements, we noted the following:

- Supporting invoices, receipts, and/or purchase request forms could not be provided for two of the five debit card transactions tested. We reviewed the transactions on the bank statement, noting that the vendors appeared reasonable.
- We noted two checks totaling \$800 made out to cash to establish a change fund for the “I Made It Market” event. Although we noted that approved purchase requests and supporting receipts were retained to document the use of these funds, we also recommend that a formal cash reconciliation worksheet be developed and used at each event to account for the cash. Two individuals should count and record the amount of each type of revenue collected at an event. The two individuals should document their involvement in the process by dating and initialing the form. Requiring two individuals to perform these tasks reduces the risk that misappropriation will occur and not be detected.

Controls over disbursements should be reviewed and revised to ensure that supporting documentation is maintained for all purchases and that all purchases are authorized prior to payment.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Project’s internal control to be significant deficiencies:

Segregation of Duties*

Due to the size of the Project, one individual completes many aspects of the accounting functions. The following weaknesses related to segregation of duties were noted:

- One individual has the ability to process cash receipts, prepare and make deposits, update the general ledger, and create and post journal entries.
- One individual has the ability to code invoices, prepare checks, post journal entries, and process and mail disbursements.

Strong internal controls require that duties be segregated so that one person does not control all aspects of an accounting function. Without these controls, the risk exists that errors or irregularities may occur and not be detected in a timely manner. Currently, the Project attempts to mitigate the segregation of duties issues by having the Executive Director receive the original bank statements unopened and review them prior to their reconciliation. After the statements are reconciled, the reconciliations are provided to the Treasurer of the Board of Directors for review. With regard to cash disbursements, the Executive Director approves all invoices and is the only authorized check signer. Although these steps mitigate the

segregation of duties issue, they do not eliminate the associated risks. We recommend that the Project continue to review its current practices and attempt to determine ways to further segregate duties at a cost that does not outweigh the benefit to the Project. We offer the following additional mitigating control for consideration:

- Currently, contributions are tracked in the Northstar system by a Project volunteer. All checks are received and logged by the Business Manager who also deposits the checks and enters them into QuickBooks. Copies of contribution checks are then given to the Project volunteer to enter into Northstar. Alternatively, the checks could be received and logged by someone independent of the bookkeeping and tracking functions and a monthly reconciliation among Northstar, QuickBooks, and the check log could be performed.

Payroll

During our testing of payroll transactions, we noted that the number of hours worked, as documented on the time sheet, did not agree to the number of hours actually paid for one employee tested, resulting in an underpayment to the employee. We recommend that the Project implement procedures to ensure that all information is correctly submitted to ADP for processing.

Void Checks*

The Project was unable to provide support for two checks marked as void in the accounting system. As the checks cannot be located, management should consider contacting the bank and stopping payment on the applicable check numbers. Additionally, going forward, the Project should ensure that all voided checks are properly defaced, signatures removed, and retained to support that the checks were in fact voided.

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We also had a comment on the following other matter:

Policies and Procedures*

The Project was required to file the long Form 990 this year. The Form requires an organization to indicate whether the process for determining compensation of the CEO, Executive Director, or top management official includes a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision. We continue to recommend that the Project become familiar with the requirements of the long Form 990 and designate an individual to ensure that it is current with the information required, as well as developing and adopting formal written document retention and executive compensation procedures.

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The attached Union Project's Audit Committee Action Plan with written responses to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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This communication is intended solely for the information and use of the Board of Directors, management, and others within the Project and is not intended to be and should not be used by anyone other than these specified parties.

Mahe Duessel

Pittsburgh, Pennsylvania
April 21, 2011



Audit Committee Action Plan

The Project's new leadership team is comprised of the Board Chair, the Executive Director, and 10 additions to the Board over the past 24 months. These new leaders, coupled with the remaining 3 Board Members, make up the Project's Leadership Team ("Leadership Team").

The Leadership Team recognizes that the Management Letter for the year ended August 31, 2010, as drafted by Maher Duessel, presents an opportunity to address the Project's financial control weaknesses and to bring them in-line with industry best practices. What follows is the Leadership Team's "Action Plan" to address these ongoing concerns in a timely fashion.

Financial Reporting System

The Leadership Team recognizes the difficulty of the Project, and many nonprofits of similar budget size, to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) and applicable to nonprofit entities. Though staff put forth maximum effort to maintain the financial reporting system, the Project remains reliant on its auditor to ensure comprehensive and accurate financial reporting.

Issue Resolution: By the end of the 2010-11 fiscal year, the Leadership Team will contract with a third-party, independent bookkeeping service with nonprofit experience. This service will be responsible for maintaining the accuracy of the general ledger, as well as accounts payable transactions, accounts receivable transactions, and the reconciliation of payroll expenses and bank statements. Staff will then be responsible for ensuring that the selected third-party service receives accurate and timely financial information, allowing for the production of monthly financial reports for the Leadership Team.

Disbursements

Issue Resolution: The Leadership Team intends to address the disbursement weaknesses raised in the Management Letter through the adoption and implementation of two policies and procedures.

1) **Recordkeeping:** By the end of the 2010-11 fiscal year, the Leadership Team will draft into policy, and subsequently implement, a procedure requiring the Business Manager to supervise the digital transfer of hard copy, supporting disbursement records (e.g., invoices, receipts, and or purchase request forms) to the Project's secure intranet network. Once digitized, the hard copies will continue to be archived at the Project until such time when it is legally permissible to destroy the physical records. Consequently, the Leadership Team believes that this added control – the digitization of cash disbursements and receipts – will enhance management's ability to access these records with consistency and efficiency when needed.

2) **Cash disbursement controls:** By the end of May 2011, the Leadership Team will implement a policy and procedure that requires two individuals to count and record each cash transaction on a standardized control sheet during events and activities. The two individuals will be responsible



for noting each disbursement transaction, reconciling totals at the end of the event, and will initial and date their separate control sheets, which then will be reviewed by the Project staff and/or appropriate Board Members.

Segregation of Duties

At present, the Project is dependent on one individual to complete many aspects of the accounting functions. The result is an unreasonable amount of accounting duties concentrated on one staff person. The Leadership Team recognizes that in order to adhere to sector best practices, a number of these accounting duties need to be dispersed across the organization and beyond.

Currently, the Project attempts to mitigate the risks associated with segregation of accounting duties by having the Executive Director receive the original bank statements unopened and reviewing them prior to their reconciliation. Once the statements are reconciled, they are provided to the Treasurer for review. Regarding cash disbursements, the Executive Director approves all invoices and, effective as of 6/1/2011, is one of two required signatures to authorize disbursements of \$5,000 or more.

While these recent segregation of duty steps have lessened the associated risks of corporate malfeasance, the Leadership Team acknowledges that greater financial controls are needed.

Issue resolution: By August of 2011, the Finance Committee, working with an experienced, third-party nonprofit accountant, will ensure a greater dispersion of accounting tasks – authority, custody, and recordkeeping – across personnel. One possible scenario of how the accounting duties could be further segregated among Project personnel, without being overly burdensome to staff, involves the following:

Board: sign checks and review bank reconciliations, contributions received, and financial reports
Executive Director: write checks, sign checks, prepare deposit slips, initiate bank transfers, and review timesheets

Business Manager: authorize purchase orders, approve and process vendor invoices, disburse petty cash, receive cash, mail checks, submit timesheets to payroll provider, update contributions in database, and provide the external bookkeeper with financial information

External Bookkeeper: reconcile bank and petty cash accounts, record accounts receivable and payable general ledger journal entries, and produce monthly financial reports

Finance Committee: review and discuss monthly financial reports

By implementing greater accounting controls through the increased segregation of duties, the Leadership Team is confident that the timesheet and voided check mishaps, as documented in the Management Letter, are unlikely to persist.

Policies and Procedures

The Leadership Team recognizes the importance of familiarizing the Board and management with the requirements of the long Form 990.

Issue resolution: The Leadership Team has or will implement the following changes:



- 1) Executive Director Review: For the fiscal year 2010-2011, the Executive Committee implemented an annual review process of the Executive Director and was duly noted in the Committee's minutes. This review will include a salary comparison survey and report of those findings to the full Board of Directors.
- 2) Transparency: By the end of May 2011, the Project, in-line with emerging sector best practices, intends to make available its 2009-2010 Audit and corresponding Form 990 through its website and related third-party "watchdog" groups. The Leadership Team hopes that this will demonstrate its commitment to transparency and sector best practices, as it continues to work to make the Union Project an exemplary nonprofit organization.


Implementation

As representatives of the Leadership Team, the following parties do hereby pledge to implement the Audit Committee's Action Plan within 180 days from today's signature and date:



Garrett Cooper, Audit Committee Chair
The Union Project

5/3/2011
Date



Jeffrey Dorsey, Executive Director
The Union Project

5/3/2011
Date