Issue Date	May 11, 2010
Audit Report Number	2010-PH-1008

TO: Frances Bush, Director, Office of Community Planning and Development, Washington, DC, Field Office, 3GD

//signed//

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: Sasha Bruce Youthwork, Incorporated, Washington, DC, Did Not Support More Than $1.9 Million in Expenditures

HIGHLIGHTS

What We Audited and Why

We audited Sasha Bruce Youthwork, Incorporated (Youthwork, Inc.), based on a referral from the District of Columbia's Office of the Inspector General and a citizen complaint alleging that the organization misused Federal funds. Our objective was to determine whether Youthwork, Inc., used its Youthbuild and Supportive Housing program grant funds in acccordance with U.S. Department of Housing and Urban Development (HUD) regulations and its grant agreements.

What We Found

Youthwork, Inc., could not demonstrate that it used more than $1.9 million in grant funds in accordance with HUD regulations and its grant agreements. Specifically, it failed to maintain adequate records identifying the source and application of funds for its HUD-sponsored activities.

What We Recommend

We recommend that the Director of HUD's Washington, DC, Office of Community Planning and Development require Youthwork, Inc., to provide documentation to demonstrate that more than $1.9 million was used for eligible activities or repay HUD from non-Federal funds. We further recommend that the Director require Youthwork, Inc., to improve its financial management system and implement improved accounting procedures to ensure that it meets the requirements of regulations at 24 CFR (Code of Federal Regulations) 84.21 and Office of Management and Budget Circular (OMB) A-110. At a minimum, the financial management system should maintain accounting records that (1) track expenses paid by HUD versus expenses paid through other funding sources; (2) demonstrate that expenditures paid were for eligible activities; (3) determine and adequately document the reasonableness, allocability, and allowability of costs; and (4) demonstrate that expenditures meet HUD-approved budget line items, thereby ensuring that more than $686,342 in program funds will be used for eligible purposes.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided a copy of the draft report to Youthwork, Inc., on March 24, 2010. We discussed the audit results with its officials during the audit and at an exit conference on April 16, 2010. Youthwork, Inc., provided its written comments to our draft report on April 23, 2010. It disagreed with the results of our audit.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

Sasha Bruce Youthwork, Incorporated (Youthwork, Inc.), received grant funds for its Youthbuild and Supportive Housing Programs directly from the U.S. Department of Housing and Urban Development (HUD) under Title IV, Subtitle D, of the National Affordable Housing Act and Title IV, Subtitle C, of the McKinney-Vento Homeless Assistance Act of 1987. Youthwork, Inc., is a private, nonprofit youth and family services organization established and incorporated in 1974. It is governed by a 20-member board of directors. The executive director is responsible for the day-to-day operations of the organization. Youthwork, Inc.'s mission is to provide comprehensive and coordinated services that meet the urgent needs of "at-risk" youths and their families. Its goals are to provide cost-effective and responsive services through 21 residential and nonresidential programs directed at homeless, runaway, and abandoned children; troubled youths referred by juvenile courts; teenage mothers and their babies; and other young people who are at risk.

Between 2005 and 2009, Youthwork, Inc., entered into grant agreements with HUD to carry out activities associated with its programs. Of the more than $2.6 million in grant funds awarded, it has received $1.9 million via HUD's Line of Credit Control System (LOCCS) for its program expenditures as shown below.

Grants awarded	Year of award	Authorized amounts	Disbursed amounts
Youthbuild	2006	$700,000	$700,000
Supportive Housing Program	2005	386,279	$386,279
Supportive Housing Program	2006	386,279	386,279
Supportive Housing Program	2007	386,278	386,278
Supportive Housing Program	2008	386,278	86,214
Supportive Housing Program	2009	386,278	0
Totals		**$2,631,392**	**$1,945,050**

Youthwork, Inc., was required to provide transitional housing to homeless youths and mothers with young children under its Supportive Housing Program. In addition to transitional housing, it was required to provide the following supportive services to the participants: outreach, life skills, alcohol and drug counseling, mental health care, other health care, education, and employment assistance. Under its Youthbuild grant, it was to enroll and train 30 participants in vocational education and on-site construction, assist at least 12 participants in obtaining a general education or high school diploma, and place at least 15 participants in jobs or apprenticeships. Participants in the program were also going to construct five new housing units for low-income individuals. The age requirement for the participants was between 16 and 19 years of age.

The objective of the audit was to determine whether Youthwork, Inc., used its Youthbuild and Supportive Housing Program grant funds in accordance with HUD regulations and its grant agreements.

RESULTS OF AUDIT

Finding: Youthwork, Inc., Did Not Support the Eligibility of More Than $1.9 Million in Expenditures

Youthwork, Inc., failed to maintain records identifying the source and application of funds for its HUD-sponsored activities as required by HUD regulations and its grant agreements. Youthwork, Inc.'s, accounting system did not separately track expenses paid by HUD versus expenses paid through other funding sources. This condition occurred because responsible officials disregarded HUD requirements. Therefore, HUD had no assurance that $1.9 million in grant funds it disbursed to Youthwork, Inc., were used for eligible activities that met the intent of its grant agreements.

Youthwork, Inc., Did Not Support Its Use of HUD Funds

We reviewed all 38 transactions, totaling $1,945,050 in LOCCS drawdowns, to determine whether requests were adequately supported and met eligibility requirements. Youthwork, Inc., did not support any of its expenditures of HUD funds under its Youthbuild Program ($700,000) and its Supportive Housing Program ($1,245,050). Although it usually maintained documentation such as employee payroll records, invoices, receipts, or canceled checks, these documents were not tied to specific HUD transactions in its general ledgers. Youthwork, Inc.'s general ledgers for these two programs showed disbursements of $4.7 million, which was significantly more than the $1.9 million that HUD provided Youthwork, Inc., during the audit period. This discrepancy occurred because the general ledgers included expenses paid from funding from sources other than HUD. Further, supporting documents and the general ledgers did not separately identify expenses paid by HUD versus expenses paid through its other funding sources, which were significant, including the U.S. Departments of Labor and Health and Human Services, private foundations, and other non-Federal sources.

According to 24 CFR (Code of Federal Regulations) 84.21 and Office of Management and Budget (OMB) Circular A-110, a grantee must maintain complete and accurate grant records identifying the source and application of grant funds and ensure that grant expenditures are supported by source documentation and used solely for authorized purposes. Additionally, the regulation required Youthwork, Inc., to have written procedures for determining the reasonableness, allocability, and allowability of cost in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. Youthwork, Inc., failed to do so.

Additionally, both the Youthbuild and Supportive Housing grants required grant funds to be used in accordance with HUD-approved budgeted line items. Since the general ledgers did not separately identify expenses paid by HUD versus expenses paid by other funding sources, there was no assurance that Youthwork, Inc., spent grant funds in accordance with its HUD-approved budget. There was also an increased risk that the intended purposes and outcomes of the programs would not be achieved if grant expenses were improperly allocated.

Some Expenditures Appeared Questionable

As discussed above, Youthwork, Inc., did not track its expenditures of HUD funds separately, and, therefore, all of its HUD-related expenditures were unsupported. However, since the complaint alleged misuse of Federal funds, we attempted to perform a limited review of the transactions in Youthwork, Inc.'s general ledgers to determine whether they appeared reasonable under Federal grant awards. Our limited review of selected comments in the general ledger showed that Youthwork, Inc., charged tickets to the circus, food for Christmas parties, and other social activities not eligible under Federal grants totaling at least $4,091 (see appendix C). Due to the inadequate accounting system in place at Youthwork, Inc., we could not determine whether Federal funds were used to pay for these items. It is important to note, however, that if Federal funds were used, OMB Circular A-122 would apply. The circular requires that costs charged to Federal awards be reasonable, conform to limitations or exclusions set forth in these principles or in the award as to types or the amount of cost items, and be adequately documented. The circular further states in section 14 under attachment B that entertainment costs are unallowable.

A Recommendation From HUD's Monitoring Review Was Not Implemented

In June 2007, HUD's Washington, DC, Office of Community Planning and Development recommended that Youthwork, Inc., develop procedures to track expenses paid by HUD versus expenses paid through other funding sources based on problems it identified during one of its monitoring reviews. In a December 2007 follow-up letter, Youthwork, Inc., was again directed to develop these procedures and provide a copy of the procedures to HUD. The procedures were not developed, and Youthwork, Inc., could not demonstrate that it used its HUD funds for eligible activities.

Conclusion

Youthwork, Inc., could not demonstrate that it used more than $1.9 million for eligible activities. Although HUD regulations and its grant agreements require it to adequately document that funds were spent on eligible activities, it disregarded this requirement. It also failed to maintain accounting procedures to support the reasonableness, allocability, and allowability of costs charged to the grants and disregarded this requirement. Therefore, HUD had no assurance that Federal funds, totaling more than $1.9 million, met the intent of HUD's Youthbuild and Supportive Housing Programs.

Youthwork, Inc., had $686,342 in Supportive Housing funds that had not been disbursed. By improving its financial management system to ensure that it meets the requirements of regulations at 24 CFR 84.21 and OMB Circular A-110, it can ensure that these funds will be used for the purposes intended.

Recommendations

We recommend that the Director of HUD's Washington, DC, Office of Community Planning and Development

1A. Evaluate the issues in this report and if appropriate, initiate appropriate administrative actions against responsible officials of Youthwork, Inc.

We also recommend the Director of HUD's Washington, DC, Office of Community Planning and Development require Youthwork, Inc., to

1B. Provide documentation to demonstrate that $1,945,050 was used for eligible activities that met the criteria of its HUD-approved budget line items or repay HUD from non-Federal funds.

1C. Improve its financial management system and implement improved accounting procedures to ensure that it meets the requirements of regulations at 24 CFR 84.21 and OMB Circular A-110. At a minimum, the financial management system should maintain accounting records that (1) track expenses paid by HUD versus expenses paid through other funding sources; (2) demonstrate that expenditures paid were for eligible activities; (3) determine and adequately document the reasonableness, allocability, and allowability of costs; and (4) demonstrate that expenditures meet HUD-approved budget line items, thereby ensuring that $686,342 in program funds will be put to better use in the next year.

SCOPE AND METHODOLOGY

To accomplish our objective, we

- Reviewed grant agreements and requirements, including Federal laws and regulations and Office of Management and Budget circulars.

- Reviewed HUD's monitoring reports and funding awarded to Youthwork, Inc.

- Conducted interviews and inquiries with HUD's Washington, DC, Office of Community Planning and Development to obtain an understanding of its Youthbuild and Supportive Housing Programs.

- Reviewed Youthwork, Inc.'s accounting records, audited financial statements, board meeting minutes, and progress reports.

- Conducted interviews with Youthwork, Inc.'s administrative and finance staff to gain an understanding of the internal controls related to the administration of its Youthbuild and Supportive Housing Programs.

- Selected and reviewed all 38 transactions, totaling $1.9 million in LOCCS drawdowns, to determine whether requests were adequately supported and met eligibility requirements.

We performed our on-site work from August through October 2009 at Youthwork, Inc.'s office located at 741 8th Street, SE, Washington, DC, and HUD's Washington, DC, Office of Community Planning and Development. Our audit generally covered the period June 2006 to November 2009 and was extended when necessary to include other periods.

Youthwork, Inc., cannot demonstrate that it used $1,945,050 in accordance with HUD regulations and its grant agreements. For years 2008 and 2009, Youthwork, Inc., was awarded Supportive Housing Program funds totaling $772,556 and received $86,214 as of the date of this report. We determined that Youthwork, Inc., will put $686,342 ($772,556 minus $86,214=$686,342) to better use by improving its financial management system and implementing improved accounting procedures. Since Youthwork, Inc., currently does not account for HUD funds separately its unexpended HUD funds of $686,342 are currently at risk of being spent contrary to HUD requirements and its grant agreements.

To achieve our audit objective, we relied in part on computer-processed data in Youthwork, Inc.'s databases. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit

objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Control

We determined that the following internal control was relevant to our audit objective:

- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant control identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

Based on our review, we believe that the following item is a significant weakness:

- Youthwork, Inc., did not operate in compliance with laws and regulations to ensure that its grant activities were eligible.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Unsupported 1/	Funds to be put to better use/2
1B	$1,945,050	
1C		$686,342

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if Youthwork, Inc., improves its financial management system to ensure that it meets the requirements of regulations at 24 CFR 84.21 and OMB Circular A-110, it will ensure that $686,342 will be used for eligible purposes in the next year. Since Youthwork, Inc., currently does not account for HUD funds separately its unexpended HUD funds of $686,342 are at risk of being spent contrary to HUD requirements and its grant agreements.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Sasha Bruce Youthwork, Inc.

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Mr. John Buck
U.S. Department of Housing and Urban Development
Regional Inspector General
Philadelphia Regional Office
Wanamaker Building
100 Penn Square East
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Philadelphia, Pa 19107-3380

April 23, 2010

Re: Sasha Bruce Youthwork, Inc. Response to Draft HUD Audit Report

Dear Mr. Buck:

We are pleased to have the opportunity to address the draft report that has been presented to us by HUD in conjunction with its multi-year audit of our administration of HUD grants to Sasha Bruce Youthwork, Inc. ("SBY"). Sasha Bruce is a youth and family service agency which has been providing services for homeless youth and young adults in Washington, DC for 35 years. We have had an independent audit for each of those years without an exception including an A-133 audit each year it was required. We also have a Finance Director with extensive experience in accounting including many years as a government auditor. We believe we are good stewards of the resources we have been given from all of our funding sources and are proud of the impact we are making on youth homelessness, youth disaffection and family relationships. We believe we have built a strong foundation.

Comment 1

In response to the specifics in the Draft HUD Audit Report, we strongly disagree with the finding that all of SBY's cost claims are unsupported. In fact, we have provided evidentiary support to demonstrate that all of SBY's draws are fully supported in every instance, and that SBY's programmatic results have demonstrated its successful use of HUD funding. Following are responses to each of the items discussed in the draft report.

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ITEM 1 – CONDITION – USAGE OF FUNDING

The "What We Found" segment of the Draft Report Highlights states:

Youthwork, Inc. could not demonstrate that it used more than $1.9 million in grant funds in accordance with HUD regulations and its grant agreements. Specifically, it failed to maintain adequate records identifying the source and application of funds for its HUD-sponsored activities.

Under the "Results of Audit" heading, the report further states:

…. Youthwork, Inc.'s accounting system did not separately track expenses paid by HUD versus expenses paid through other funding sources. This condition occurred because responsible officials disregarded HUD requirements. Therefore, HUD had no assurance that $1.9 million in grant funds it disbursed to Youthwork, Inc. were used for eligible activities that met the intent of its grant agreements.

and the section titled "Youthwork, Inc. Did Not Support Its Use of HUD Funds" includes:

…. Additionally, both the Youthbuild and Supportive Housing grants required grant funds to be used in accordance with HUD-approved budgeted line items. Since the general ledgers did not separately identify expenses paid by HUD versus expenses paid by other funding sources, there was no assurance that Youthwork, Inc. spent grant funds in accordance with its HUD-approved budget. There was also an increased risk that the intended purposes and outcomes of the programs would not be achieved if grant expenses were improperly allocated.

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Comment 1

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Response: The vast majority of SBY's HUD-related expenses are Salaries & Benefits and Client Assistance. For 25 of the 36 draws examined during the audit, these costs alone fully supported SBY's actual draws, and for 32 of the 36 draws, these costs accounted for over 90% of SBY's actual draws (see Exhibit 1). SBY's recovery of overhead costs is minimal, and we take great pride in the fact that SBY achieves its HUD program objectives with very little reliance on indirect cost pass-throughs.

Each of SBY's HUD contracts include budgets that detail our anticipated expenditure activity and how our costs are to be distributed among cost codes – e.g. Supportive Services, Operating Costs, and Admin. The Executive Director and the Program Directors determine the staffing for each contract, and ensure that qualified individuals are assigned to each contract. The Finance Department ensures that cost assignments for staff salaries and benefits are consistent with those in the contract budgets.

Employees assigned to HUD contracts are assigned to the following departments on the Payroll System: Department 8 – Independent Living; Department 31 – HUD Youthbuild; and Department 50 – Olaiya's Cradle. This distinguishes these employees from employees assigned to other contracts such as those with the DC Government, HHS and DOL. Employees complete timecards every two weeks, and submit them to their program supervisors. After they are approved, they are submitted to the Senior Accountant for payment processing. The Payroll Reports generated by the Payroll System (Ceridian) contain the cost details for each employee assigned to each HUD Department.

The Director of Finance prepares Journal Entries based on the department summaries from the Payroll System for recording onto the official Accounting System (MIP). The summary information posted to MIP matches both the Payroll System data from Ceridian and the payroll cash entries on the Operating Account bank statements. It also forms the primary basis for SBY's LOCCS draw sheet expense claims. The department structure on MIP parallels that on Ceridian. In other words, there are separate departments on MIP that allow HUD-specific expense activity to be distinguished from all other cost activity.

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Comment 1

Client Assistance costs related to HUD contracts are subject to the approval of cognizant Program Directors, and must be supported by documentation that demonstrates their applicability and allowability. These costs are directly assigned to the Supportive Services cost element, consistent with SBY's contract budgets.

Therefore, the claim that SBY is unable to distinguish HUD costs from those chargeable to contracts with other agencies is simply incorrect. We are able to furnish a complete audit trail for our non-overhead charges: Contract Budget → Timecards → Payroll System → Official Accounting System → Draw Sheets. None of the employees itemized on our payroll journals was identified to us as being unallowable, and only a modest valuation of our Client Assistance costs was questioned in the audit report. Based on this explanation, SBY maintains that all of its Salaries and Client Assistance costs are fully supported. For the 36 draws reviewed, these costs total **$2,165,433**, more than the total reimbursements of $1.9 million we requested and received in the aggregate.

Sasha Bruce's overhead (e.g. Rent, Telephone, Office Expenses) is assigned to its contracts based largely on the relative percentage of Salaries & Benefits attributable to each of its HUD contracts. Were SBY instead to have applied our last approved Federal overhead rate percentage to Salaries & Benefits, the applied overhead costs would have been considerably higher. Since overhead costs do not have a direct "cause-and-effect" relationship with the cost elements under each contract, SBY assigns them to the cost elements based on the same relative percentages that apply to its Salaries & Benefits. SBY's independent auditors review its allocation methodology each year, and they have found it to be completely consistent with generally accepted accounting principles. Nonetheless, SBY would be willing to entertain any reasonable alternative recommendations if HUD feels differently.

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Comment 1

Sasha Bruce would also like to address what we believe to be the true condition at the heart of the finding. In October 2009, the auditors determined that SBY did not retain adequate documentation in support of its LOCCS draw sheets. SBY concurs with that determination. For a variety of reasons, including a prior reliance on accountants who were not adequately trained in terms of contract documentation requirements, the accounting details that supported some of the draws were not available. The vast majority of the audit focused on 100% testing of compensating controls – specifically, SBY was required to furnish General Ledger details from the official accounting system that demonstrated full coverage of our draws. We are pleased to observe that, in every instance, SBY was able to prove that our recorded costs equaled or exceeded the actual amounts drawn. This information is not disclosed in the Draft Audit Report and, given the extensive amount of audit effort devoted to this testing and the eventual result, we believe that it should and must be reported.

Finally, SBY maintains the assertion that:

Since the general ledgers did not separately identify expenses paid by HUD versus expenses paid by other funding sources, there was no assurance that Youthwork, Inc. spent grant funds in accordance with its HUD-approved budget. There was also an increased risk that the intended purposes and outcomes of the programs would not be achieved if grant expenses were improperly allocated.

Comment 1

is baseless. As discussed above, the general ledgers allow expenses chargeable to HUD to be readily distinguished from those chargeable to other funding sources. The claim of an increased risk that program objectives may not be achieved due to improperly allocated expenses is similarly unfounded. The auditors obtained documentation from Program Managers that related to programmatic achievements, and no shortfalls were identified to us during the audit or in the Draft Audit Report.

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Comment 2

ITEM 2 – CONDITION – MONITORING REVIEW RECOMMENDATION WAS NOT IMPLEMENTED

The following observation appears on page 6 of the Draft Audit Report:

In June 2007, HUD's Washington, DC Office of Community Planning and Development recommended that Youthwork, Inc. develop procedures to track expenses paid by HUD versus expenses paid through other funding sources based on problems it identified during one of its monitoring reviews. In a December 2007 follow-up letter, Youthwork, Inc. was again directed to develop these procedures and provide a copy of the procedures to HUD. These procedures were not developed, and Youthwork, Inc. could not demonstrate that it used its HUD funds for eligible activities.

Response: SBY has developed improved ways of tracking our expenses since the 2007 recommendations and understood that we have been fully responsive to the monitoring review issues. Clearly, the spirit of the recommendation has been achieved. SBY's methodology for assigning and allocating contract-related costs is described fully above. SBY plans to coordinate with the Field Office to memorialize our procedures in writing. As also described previously, SBY has demonstrated that its HUD funding was used appropriately for eligible activities.

ITEM 3 – RECOMMENDATIONS

First Recommendation:

We recommend that the Director of HUD's Washington, DC Office of Community Planning and Development

1A. Evaluate the issues in this report and if appropriate, initiate appropriate administrative actions against responsible officials of Youthwork, Inc.

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Sasha Bruce Youthwork, Inc.

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Comment 3

Response: We find this recommendation is suggestive of wrong-doing or malfeasance, although none was identified during the audit or in the Draft Audit Report. In this regard, we find this statement quite objectionable. It presumes the validity of a finding with which we do not concur. Contrary to the auditor's claim, SBY's HUD-related expenses are expressly distinguished from all others on its accounting system. SBY is able to furnish a complete audit trail from source documentation to its draw sheets. SBY's allocation methodology is reviewed annually by its external auditors, and has been determined to be acceptable for every year of data under review. SBY's Director of Finance has twenty-two years of Government auditing and accounting experience, and six professional accounting certifications. He has a thorough understanding of grant monitoring and oversight.

Comment 1

Given that nearly 90% of the costs at issue relate to Salaries and Benefits, SBY believes that the auditors' conclusion that our costs are unsupported in mid-December 2009, is without merit. This is true because it was not until seven weeks later (February 4, 2010) that the auditors first requested in writing SBY's timesheets- the source document for all labor cost claims. Without ever having attempted to trace from the source documentation to the draw sheets, the auditors had no basis for determining the validity of *any* labor costs. This methodology contravenes General Accepted Auditing Standards. We therefore find their basic premise for their finding to be lacking in evidentiary support. This being the case, we find the recommendation has no basis.

Second Recommendation:

We also recommend the Director of HUD's Washington, DC Office of Community Planning and Development require Youthwork, Inc. to

1B. Provide documentation to demonstrate that $1,945,050 was used for eligible activities that met the criteria of its HUD-approved budget line items or repay HUD from non-Federal funds.

Comment 3

Response: SBY has provided overwhelming evidence that its

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claimed costs are chargeable to HUD, and that SBY has only been reimbursed to the extent authorized by the terms of its contracts. SBY has also demonstrated that its programmatic objectives have been met – a result that cannot not occur without the commitment of sufficient resources and effort. The recommendation to repay HUD from non-Federal funds is without merit for these reasons, and should be removed from the Audit Report.

Third Recommendation:

1C. Improve its financial management system and implement improved accounting procedures to ensure that it meets the requirements of regulations at 24 CFR 84.21 and OMB Circular A-110. At a minimum, the financial system should maintain accounting records that: (1) track expenses paid by HUD versus expenses paid through other funding sources; (2) demonstrate that expenditures paid were for eligible activities; (3) determine and adequately document the reasonableness, allocability and allowability of costs; and (4) demonstrate that expenditures meet HUD-approved budget line items, thereby ensuring that $686,342 in program funds will be put to better use in the next year.

Comment 2

Comment 3

Response: SBY assigns and allocates costs in accordance with the CFR and OMB Circular A-110. We have overstaffed some of our contracts in the past, and this has caused us to recover less than our full investment in HUD programs. SBY plans to revisit its contract staffing policies and procedures to ensure that they are consistent with potential cost recoveries, and to deploy its resources more efficiently and effectively.

ITEM 4 –SIGNIFICANT WEAKNESS

This section includes the following item:

Youthwork, Inc. did not operate in compliance with laws and regulations to ensure that its grant activities were eligible.

Comments 1, 2, and 3

Response: This item is unsupported by the facts of the audit. The lack of adequate documentation for our LOCCS draw sheets was compensated for in every instance by SBY's ability to demonstrate that its incurred costs per the accounting system equaled or

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exceeded the amounts drawn. This makes for an administrative finding subject to corrective action, not a significant weakness. Our responses to the issues raised in the report regarding cost allocations and allowability have been presented above.

I sincerely hope that our response helps to clarify any ambiguities or misunderstandings regarding our accounting system and the evidence provided during the course of the audit. We look forward to working with the DC Field Office to resolve the remaining open issues.

Until then, I am

Sincerely,

Deborah Shore,
Executive Director

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OIG Evaluation of Auditee Comments

Comment 1 On numerous occasions throughout the audit, we directed Youthwork, Inc., to provide documentation to support 38 individual LOCCS drawdowns of HUD funds totaling $1.9 million. Youthwork, Inc., provided only its general ledgers showing $4.7 million in expenditures which included $2.8 million funded through other sources such as the U.S. Department of Labor, U.S. Department of Health and Human Services, private foundations and other non-Federal sources. Youthwork, Inc., did not identify HUD specific transactions in its general ledgers and it failed to provide other necessary supporting documentation such as employee timesheets, payroll records, invoices, receipts, or cancelled checks. Youthwork, Inc., acknowledges the existence of this significant internal control weakness later in its reply when it states that for a variety of reasons, including prior reliance on accountants who were not adequately trained in terms of contract documentation requirements, the accounting details supporting its draws were not available.

Comment 2 Youthwork, Inc., does not dispute the fact that it failed to develop written procedures to track expenses paid by HUD versus expenses paid through other funding sources in spite of two separate letters from HUD's Washington, DC, Office of Community Planning and Development directing it to do so. Instead, Youthwork, Inc., states that it has achieved the "spirit of the recommendation." Youthwork, Inc., further states that it will now in fact coordinate with HUD to memorialize its procedures in writing. The audit evidence demonstrated that Youthwork, Inc., has not achieved the spirit of the previous HUD recommendation and it is imperative for it to develop procedures to ensure the reasonableness, allocability, and allowability of costs charged to its HUD grants.

Comment 3 The audit report does not state that the audit indentified evidence of wrongdoing or malfeasance. The audit report does state that Youthwork, Inc., could not demonstrate that it used more than $1.9 million for eligible activities. The audit report also states that it failed to maintain accounting procedures to support the reasonableness, allocability, and allowability of costs charged to the grants and that it disregarded this requirement. Youthwork, Inc., therefore now needs to work collaboratively with HUD's Washington, DC, Office of Community Planning and Development to provide adequate support for its HUD expenditures and to implement improved accounting procedures. Administrative sanctions (see 24 CFR Part 24), are discretionary actions that may be taken to protect the public interest and sanctions may be appropriate based on HUD's final evaluation of the problems identified in this audit report and Youthwork, Inc.'s response to these problems.

Appendix C

POTENTIAL INELIGIBLE COSTS

Ineligible expense*	Date	Amount
Celebration for Inaugural Ball	1/21/2009	$519
Christmas dinner	12/12/2007	425
Joint celebration for Inaugural	11/17/2008	341
Food for Mother's Day brunch	4/19/2007	300
Trip to Ocean City	6/21/2007	300
Graduation cookout	9/6/2007	250
Trip to Ocean City	7/6/2006	250
Third annual hip-hop seminar	4/4/2007	205
Christmas dinner	12/3/2006	200
Resident activity	1/29/2009	200
Food for black extravaganza	2/15/2007	150
Circus tickets and metro fare	3/6/2008	150
Pizza and bowling	8/16/2007	146
Tickets to Disney on Ice	2/4/2008	130
Circus tickets and metro fare	3/11/2009	120
Tickets to Disney on Ice	2/1/2007	120
Circus tickets	3/15/2007	120
Tickets to Kings Dominion amusement park	6/30/2009	100
Hip-hop workshops summit	4/12/2007	65
Total		**$4,091**

* Office of Management and Budget Circular A-122, attachment B, section 14, states, "Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable."