

THE DENNEY HOUSE, INC.

**GRANT AUDIT
APRIL 2025**

**OFFICE OF AUDITS AND INVESTIGATIONS
Prince George's County
Largo, Maryland**

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THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

April 2025

The County Council and County Executive
of Prince George's County, Maryland

Council Resolution 51-1991, adopted June 25, 1991, requires the Office of Audits and Investigations (A&I) to perform random financial audits of grants and transfer payments appropriated in the Non-Departmental section of the County's Approved Annual Current Expense Budget.


We have examined the books and records of

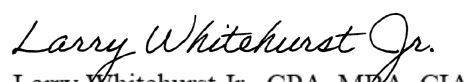
THE DENNEY HOUSE, INC.

for the period July 1, 2021, through June 30, 2023. Our examination included tests of the accounting records and other auditing procedures, as we considered necessary under the circumstances.

We noted matters involving the Prince George's County grants to The Denney House, Inc., which led us to believe that the County grant funds were used for purposes other than their intended purpose. In accordance with government auditing standards, the matters noted in this report were communicated to various investigatory and administrative agencies for review and any actions they deem necessary. The findings were also discussed with the organization at the conclusion of audit fieldwork.

In our opinion, this report fulfills the requirements of Council Resolution 51-1991 to perform random financial audits of grants and transfer payments made pursuant to the Non- Departmental section of the Prince George's County, Maryland, Fiscal Years 2022 and 2023 Approved Operating Budget.


Turkessa M. Green, CPA, CIA, CISA
County Auditor


Larry Whitehurst Jr., CPA, MBA, CIA
Audit Manager

Executive Summary

The Denney House, Inc. received a total of \$279,165 of grant funds from the Prince George's County Government (the County) between July 1, 2021, through June 30, 2023. During our audit we noted several matters involving the grant funding provided to The Denney House, Inc. that are cause for concern. Based upon the extent of the findings outlined in this report, **we recommend the discontinuance of County grant funding to The Denney House, Inc. at this time.** A summary of these issues is provided below, and further details can be found in the following report.

- **Potential Conflicts of Interest:** A review of the presented organizational and financial documentation revealed several agreements between The Denney House, Inc. (TDH), former and current Board members, and the Executive Director. Additionally, we noted several transfers (a net of \$5,000) between the organization's bank account and a personal bank account.
- **Lack of Documentation to Support Grant Expenditures:** A&I requested supporting documentation for 72 transactions totaling \$176,900 for testing. The organization did not provide adequate supporting documentation (i.e., invoices/receipts) for 55 transactions totaling \$145,346, or 82% of the sample selected for testing.
- **Inadequate Board Oversight:** A review of the board meeting minutes, bylaws, and discussions with the Executive Director revealed that one board member lacked independence (the Executive Director's husband served as the Board Treasurer), the board conducted an insufficient number of documented board meetings, and the board failed to perform adequate reviews of the organization's financial transactions.
- **Political Campaign Contributions:** A search of the Maryland Campaign Reporting Information System revealed that The Denney House, Inc. (TDH) contributed \$500 on April 9, 2022, and \$25 on October 15, 2018, to the political campaigns of two local candidates.
- **Inadequate Accounting Practices:** A review of the organization's financial reports revealed 73 uncleared transactions totaling \$46,676 on the bank and credit card reconciliations and significant differences when comparing the year-ending bank and credit card balances to the amounts listed on the statement of financial position.
- **Lack of Written Policies and Procedures/Formal Timekeeping Process:** The Denney House (TDH) lacks written policies and procedures, including a formal timekeeping process to document employee work hours and subsequent supervisory approval.
- **Noncompliance with Grant Reporting Requirements:** The organization submitted two (2) out of the nine (9) required periodic progress reports for grants awarded in FY 2022 and FY 2023, and the reports were not submitted by the required deadline.

Overall Audit Rating	Total County Grant Funding	Other County Funding*
	\$279,165	\$ 394,225

● No Significant Findings Noted – Opportunities for Improvement Identified
● Some Deficiencies Noted – Eligible for Funding
● Significant Deficiencies Noted – Ineligible for Funding

*Other funding paid directly/indirectly by the County (i.e., M-NCPPC, Circuit Court, Employ Prince George's, Office of Central Services, etc.). These funds were excluded from the scope of the audit.

The Denney House, Inc.

The Denney House, Inc. (TDH) is a 501(c)(3) nonprofit organization incorporated in the State of Maryland in 2013. Its mission is to empower vulnerable populations in the State of Maryland to discover their unique purpose in life and equip them with the tools to unlock their full potential. The organization's headquarters is at [REDACTED], Clinton, Maryland.

To address the observed needs of the community, TDH developed four (4) specific programs, and they are outlined below:

The Empowerment Institute (TEI) is a program that is designed to provide access to relevant training and information, either developed internally or hosted in partnership with community organizations. TDH has leveraged this program to partner with the County agencies/programs listed below:

- Summer Youth Employment Program - In 2019, the Empowerment Institute worked with the Clean County Cadet program to develop a curriculum and facilitate environmental training for over 200 youth and young adults from all over Prince George's County through the Summer Youth Employment Program.
- Prince George's County Circuit Court - Providing a mentoring and tutoring program for targeted truant youth referred to the TEI program by the County's Circuit Court system.
- The Department of Public Works and Transportation (DPW&T) - Through a contract with the Storm Water Facility Maintenance program, TDH led the beautification of the 80+ ponds located throughout the County. The DPW&T contract provided TDH with the opportunity to offer work to returning citizens where they receive on-the-job training and certification through the Occupational Safety and Health Association (OSHA) as well as the TDHWorks Program

Project Clean Water is a program driven by an initiative developed specifically to help raise awareness about the impact of the misuse and abuse of our environment on our water sources. Through this program, youth and their families are made aware of this potential impact and given best practices to improve their behaviors to become good stewards of the environment. This project was the catalyst in the development of TDH's Growing a Resource of Environmentally Educated Neighbors (G.R.E.E.N.S.) program, which was developed to help provide environmental education to middle and high school-aged youth and their families. Through the G.R.E.E.N.S. program, TDH partnered with [REDACTED] and Stephen Decatur Middle School to teach community members about maintaining gardens and the environment through hands-on activities.

TDHWorks is a program that prepares participants to be successful in the workplace by developing essential soft and social skills necessary to gain and maintain employment, financial literacy, college and career exploration, trade certification, and job placement. The specific program includes the training and certification offerings listed below:

- TDHWorks soft skills training uses a proprietary curriculum approach from an entrepreneurial mindset that encompasses lessons in goal setting, decision-making, life coaching, and financial planning.
- ARISE Life Skills is a nationally recognized program that practices communication, decision-making, anger, conflict, and time management to prepare participants.
- TDHWorks Certification Program uses customized learning experiences to earn certification trades in Landscape Management, ServSafe Food Handler, Heavy Equipment Operation, and OSHA Safety.

The **Transitional Housing Program** supports men and women in the transition to independence. The goal of the program is to promote independent living for eligible participants. The program works with returning citizens, women fleeing domestic violence, veterans, the LGBTQ+ community, and underprivileged youth who are primarily between the ages of 18-24. Currently, the TDH transitional housing program only supports men. TDH women's housing program was discontinued in September 2022 due to minimal occupancy. Some details about the program are as follows:

- To be eligible for the program, each participant must be at least 18 years old and newly released from prison while experiencing homelessness.
- The program is voluntary, with each participant signing an agreement to follow the program's rules in exchange for housing.
- There are 15 beds available across two properties. Currently, 13 of the 15 beds are occupied.
- Each participant is charged a fee of \$800/month after 90 days in the program. An extension can be granted if the participant hasn't gained employment within the first 90 days.

The Denney House, Inc. is governed by a Board of Directors/Advisors that consists of eight (8) members who serve without compensation except the Executive Director, who serves as a non-voting Board Advisor. The Board manages the affairs of the organization and has all the powers and duties necessary or appropriate for the administration of the organization's affairs. Per the organization's Bylaws, the Board holds regular meetings at least once per quarter.

The Prince George's County Council appropriates funds to support nonprofit organizations throughout the County in the form of grants. The Non-Departmental budget included funds to fulfill grant requests received from County nonprofit organizations. Non-Departmental grant funds are to be used to support citizen/community-based programs and services that help address the human, social, education, recreation, and other service needs of the County's citizens and communities. The Special Appropriation Grants are dispersed by Council Members to help

support nonprofit organizations providing programs and services to Prince George's County citizens and communities. County Council grants are awarded through a formal application process.

The Community Partnership Grant (CPG) is a grant initiative offered by the Office of the County Executive to qualified nonprofit organizations based upon a set of criteria, including the value added to the identified community, overall program costs, organizational stability, and adequacy of other funding sources. Community Partnership grants are awarded through a formal application process.

The Prince George's County Government, by way of the Prince George's County Council and the County Executive, awarded The Denney House, Inc. seven (7) grants and sponsored one event totaling \$279,165 in fiscal years 2022 and 2023. A summary of the grants awarded is shown in the table below:

<u>Disbursement Date</u>	<u>Grant Type</u>	<u>Grant Award Amount</u>
10/4/2021	FY22 Covid Relief	\$50,000
3/14/2022	FY22 Non-Departmental	\$15,000
6/24/2022	FY22 Local Development Council	\$25,000
6/30/2022	FY22 Special Appropriation	\$4,000
6/30/2022	FY22 Special Appropriation	\$2,000
7/13/2022	Senior Event Sponsorship	\$17,165
2/6/2023	FY23 Non-Departmental	\$80,000
5/26/2023	FY23 Community Partnership	\$20,000
6/23/2023	FY23 Local Development Council	\$25,000
6/30/2023	FY23 Non-Departmental	\$40,000
6/30/2023	FY23 Special Appropriation	\$1,000
Total Amount Awarded		<u>\$279,165</u>

The County awarded COVID-19 grants to organizations adversely affected by the COVID-19 pandemic. TDH received a Covid relief grant in FY 2022, and these funds were proposed to support the following:

- Operational expenses; advertising and marketing of programs;
- Upgrading technology and digital platforms;
- Providing a hybrid of in-person and virtual mentoring and tutoring through its Empowerment Institute program; and
- Providing a hybrid of in-person and virtual workforce development training in Landscape Management.

All Local Development Council and FY 2022 Special Appropriation grant funding were awarded to support TDH's transitional housing programs. The transitional housing program targets returning citizens, transitional-aged youth, LGBTQ+ youth, underprivileged young adults ages

18 to 24, and veterans with a holistic approach that includes long-term residency, case management, behavioral and mental health services, life skills, work readiness training, financial literacy, and art therapy.

The event sponsorship funds that were provided to the organization were proposed to support an event for 300 seniors in District 9. The funds were to be used to cover the costs associated with conducting the event, such as T-shirts, tent rental, tables, chairs, food, catering services, event setup, signage, and additional rental space fees.

Non-departmental (\$80,000) and Community Partnership grant funding received in FY 2023 were proposed to support the TDHWorks Workforce Development Program. TDHWorks programming focuses on preparing participants to be successful in the workplace by developing essential soft and social skills necessary to gain and maintain work, financial literacy, college and career exploration, trade certification, and job placement.

Non-departmental (\$40,000) grant funding received in FY 2023 was proposed to support direct costs associated with providing outreach and community engagement events and emergency support services to vulnerable populations in Prince George's County.

Special Appropriation grant funding received in FY 2023 was proposed to support direct costs associated with TDH's Project Clean Water, including community clean-ups, beautification events, Green Team development, and Student Ambassador training. Some specific costs would include the salary of a Program staff, purchasing materials, equipment, licenses/subscriptions, and printing and copying needed to implement programming.

The Denney House, Inc. receives funding from grants, donations, and other sources. The County grants and contracts accounted for most of the organization's revenue in FY 2022 and FY 2023.

OBJECTIVE, SCOPE AND METHODOLOGY

The objectives of our audit were to (a) assess the adequacy of the system of internal and management controls over grant funds received and expended; (b) assess whether grant-related transactions occurred in a manner consistent with The Denney House, Inc.'s grant request applications and other generally accepted business practices; and (c) identify factors inhibiting satisfactory performance in these areas and make recommendations to protect the County's interest concerning the grant funds.

The scope included all transactions related to the receipt and disbursement of the total grant funds received from July 1, 2021, through June 30, 2023.

The criteria used to evaluate the audit evidence gathered included:

- The grant applications submitted by The Denney House, Inc.;
- The United States General Accountability Office Standards for Internal Control publication ([GAO-14-704G](#));
- [Maryland Nonprofit's Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector](#); and
- Internal Revenue Code (IRC)/Internal Revenue Service (IRS) guidelines.

The audit included interviews with key personnel of The Denney House, Inc. and detailed tests, including:

- An examination of the organization's monthly bank statements;
- A review of the organization's Federal Form 990 returns for 2021, 2022, and 2023;
- A review of available cash receipts and disbursements documentation; and
- A review of available minutes for meetings held by the Board of Directors.

The Denney House, Inc. operates and reports on a calendar year, however our examination was conducted on a fiscal year basis. For report purposes, the attached Statement of Activities, prepared by A&I, is presented on a calendar year consistent with The Denney House, Inc.'s operations. The attached Statement of Activities (**Schedule 1**) shows the financial activities of the organization for the periods ending December 31, 2021, December 31, 2022 and December 31, 2023. The Statement of Activities was generated based on A&I's review and analysis of the organization's bank statements, submitted documentation, and inquiries of individuals associated with The Denney House, Inc., since formal financial statements prepared by the organization were deemed unreliable.

We examined the books and records maintained by The Denney House, Inc. and performed tests of the accounting records and other auditing procedures, as deemed necessary. The examination included a review of expenditures and supporting documentation to ensure that payment amounts were properly approved and corresponded to related invoices. **We noted instances that led us to believe that County grant funds were used for purposes other than their intended purpose.**

FINDINGS, COMMENTS AND RECOMMENDATIONS

INTERNAL CONTROLS AND THE CONTROL ENVIRONMENT

An organization's control environment should establish the overall tone, awareness, and actions of the board of directors, management, and staff concerning the importance of internal controls and its role in the organization. In an organization with a good internal control environment, responsibilities are clearly defined, and authority is assigned to specific individuals to permit identification of whether persons are acting within the scope of their authority.

Auditing standards define internal controls as a process designed to provide reasonable assurance that entity objectives will be achieved, including the objectives of reliable financial reporting, compliance with applicable laws, and the effectiveness and efficiency of the organization's service delivery processes. The primary function of internal controls is to provide assurance that errors and irregularities may be discovered with reasonable promptness.

According to the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector* ("Standards for Excellence"), nonprofits should have sound financial and operational systems in place and should ensure that accurate records are kept. The organization's financial and non-financial resources must be used in furtherance of tax-exempt purposes. Organizations should conduct periodic reviews to address the accuracy and transparency of financial and operational reports and safeguards to protect the integrity of the reporting systems.

Finding #1: Potential Conflicts of Interest

A review of presented organizational and financial documentation revealed several agreements between The Denney House, Inc. (TDH), former and current Board members, and the Executive Director. The details of these agreements are as follows:

- Property 1 ([REDACTED]) - TDH has a signed agreement with the former Board Treasurer (and husband of the Executive Director) to rent this property. The property's listed owners are the former Board Treasurer and the Executive Director. According to the Executive Director, this property serves as TDH's administrative office. The rental amount was initially set at \$2,500 a month, covering the period of September 2022 through August 2023, but was later increased to \$3,000 per month through a lease renewal dated May 2023. **The Executive Director also acknowledged that the property is their primary residence. According to the Maryland Department of Assessments and Taxation records, this property was purchased by Alan Denney in 2021. It is unclear what percentage or square footage of the residence is for personal versus business usage.** Although the signed lease agreement listed the former Board Treasurer as the landlord, payments, and 1099s were issued to Denney's Consulting, LLC, a *for-profit* organization. Maryland State Department of Assessments & Taxation (SDAT) records identify Ms. Denney as the General Partner/Resident Agent of the for-profit organization, which was originally established in 2017 under a different name. Her husband is also identified as an authorized person for Denney's Consulting, LLC¹.
- Property 2 ([REDACTED]) - TDH has a signed agreement with the former Board Treasurer (and husband of the Executive Director) to rent this property. The property's listed owners are the former Board Treasurer and the Executive Director. According to

¹ According to SDAT records, the stated purpose for Denney's Consulting, LLC (formerly Divine Divas for Hire, LLC) is "event planning, event management, retail sale". The for-profit organization was established in 2017. Available documentation on SDAT did not indicate a change in the stated purpose for the organization.

the Executive Director, this property was initially intended to serve as a transitional home for women but was later transitioned to a home for men. The rental amount was initially set at \$2,500 monthly from September 2021 through August 2024 but was later increased to \$3,000 per month through a lease renewal dated May 2022. Although the signed lease agreement identified the former Board Treasurer as the landlord, payments, and 1099s were issued to Denney's Consulting, LLC.

- Property 3 () - TDH has a signed sublease agreement with the former Board Treasurer (and husband of the Executive Director) and the Executive Director to rent this property. The property's listed owner is LLC. According to the Executive Director, this property served as a transitional home but is no longer in use. The rental amount was \$3,000 monthly for the period July 2022 through June 2024. Although the signed sublease agreement listed the former Board Treasurer as the sublessor, payments and 1099s were issued to Realty. It is unclear what relationship the former Board Treasurer or the Executive Director has with this entity or the listed property owner.
- Property 4 () - TDH has a signed sublease agreement with the former Board Treasurer (and husband of the Executive Director) and the Executive Director to rent this property. The property's listed owner is Assoc LTS Partnership. According to the Executive Director, this property served as a transitional home but is no longer in use. The rental amount was set at \$3,000 a month for the period June 2021 through May 2023. Although the signed sublease agreement listed the former Board Treasurer as the sublessor, payments were made, and 1099s were issued to Realty. Effective March 2023, the payments were made to Denney's Consulting, LLC. It is unclear what relationship the former Board Treasurer or the Executive Director has with Realty or the listed property owner.

Total payments made by TDH for the above rental agreements were as follows:

Year	Payee	Total Payment
2021	Denney Consulting	\$ 5,000
2022	Denney Consulting	\$ 20,000
2023	Denney Consulting	\$ 62,500
2021	Realty	\$ 5,500
2022	Realty	\$ 46,511
2023	Realty	\$ 2,427

- Transfers between personal and organizational accounts - A review of the organization's bank statements from 2021-2023 revealed six (6) transfers between the organization's bank accounts (ending in 6315 and 6991) and a personal account (ending in 7027). According to the Executive Director, the personal account is linked to Denney's

Consulting, LLC. A review of the transfers revealed a net debit of \$5,000 from the organization's bank account. Details of the transfers are as follows:

Date	Transfer Amount	Transfer to	Transfer from
6/30/2021	\$5,000	6315	7027
01/03/2022	-\$2,500	7027	6991
8/15/2022	-\$2,500	7027	6315
11/16/2022	-\$5,000	7027	6315
02/16/2023	\$50,000	7027	6991
02/21/2023	-\$50,000	6315	7027
NET TOTAL	-\$5,000		

- Equipment - According to the Executive Director, TDH had an agreement with the former Board Treasurer (and husband of the Executive Director) for the rental of equipment used to provide Stormwater Pond Maintenance for the Department of Public Works and Transportation (DPW&T). Although TDH did not provide a copy of the contract agreement, a review of 1099s issued by TDH revealed that the organization paid \$63,000 to Mr. Denney in 2021 for equipment rental. At the time these rental payments were made, the Executive Director's husband was actively serving as the Board Treasurer.
- Consulting Services - A current Board member/Advisor was paid for services she rendered from 2021-2023. TDH presented an offer letter dated May 2, 2022, for her to serve as a Program Manager for The Denney House Empowerment Institute. She was to be paid as a contractor at \$30/hour. However, a review of accounting records revealed that the Board member was paid beginning in 2021. According to the 1099s issued, the Board Member was paid a total of \$10,200, \$20,885, and \$23,700 for 2021, 2022, and 2023, respectively, through her established Limited Liability Company (LLC). A&I verified the 1099 payments for 2021; however, a review of the accounting records revealed more was paid to the Board Member than was reported on the 1099s. We noted variances for 2022 and 2023 were \$1,475 and \$6,150, respectively.

Discussion and approval of these agreements were not documented in the board meeting minutes provided for our review. Furthermore, information on the agreements and/or transactions with related organizations was not disclosed on the organization's IRS Form 990 for 2021 or the grant applications submitted to the Prince George's County Government.

**Note: Prior to finalizing the audit report, the organization provided amended 990 filings for 2022 and 2023. The amended returns disclosed that the organization was renting office space from the Executive Director in 2022 and 2023 at a total cost of \$90,218 and \$87,654, respectively.*

According to the Standards for Excellence, "(1) Nonprofits should have a written conflict of interest policy and statement. These should apply to board members and staff, as well as

volunteers who have significant, independent decision-making authority regarding the resources of the organization. The policy and statement should be executed by covered individuals, both at the time of the individual's initial affiliation with the organization and at least annually thereafter."

TDH's Bylaws state, "No voting member of the Board of Directors or the Executive Board of this Corporation shall receive, directly or indirectly, any salary or compensation therefrom as Director or in any other capacity unless authorized by the concurring vote of a majority of all the Directors upon full disclosure of the reason for compensation."

One of the Internal Revenue Service (IRS) 990 requirements regarding the disclosure of business transactions with an interested person is that all payments during the tax year from a single transaction between such parties that exceed the greater of \$10,000 or 1% of the filing organization's total revenue for the tax year must be disclosed on Schedule L, Part IV.

The IRS defines one characteristic of an interested person as a person required to be listed on Form 990, Part VII, Section A, as a current or former officer, director, trustee, or key employee; and for Form 990-EZ filers, a current officer, director, trustee, or key employee required to be listed on Form 990-EZ, Part IV. For purposes of reporting management company transactions on Part IV, however, a former officer, director, trustee, or key employee of the organization within the last 5 tax years is treated as an interested person whether or not required to be so listed. A family member of any of the above-listed individuals is also considered an interested person.

The Board of Directors is responsible for oversight and accountability for the organization. Nonprofits that lack sound governance principles may be at risk of poor management, resource waste, and public mistrust. Potential conflicts of interest can result in fraud, waste, and abuse.

Finding #2: Lack of Documentation to Support Grant Expenditures

To determine whether grant expenses incurred by The Denney House (TDH) were supported with appropriate documentation (e.g., invoice, receipt, contract/agreement, etc.) and aligned with its mission, we reviewed the organization's accounting records and bank statements for January 1, 2021, through June 30, 2023, and selected 72 transactions totaling \$176,900 for testing. The organization did not provide supporting documentation (i.e., invoices/receipts) or the business purpose for 55 transactions totaling \$145,346. A summary of the unsupported transactions, which was developed from the categorization and descriptions provided in the accounting and bank records, is summarized in the table below:

Expense Category	Amount	# of Transactions
Contractors	\$17,898	15
Advertising/Marketing	\$7,548	4
Supplies/Program Expenses	\$68,628	28
Rent/Utilities	\$51,272	8
TOTAL	\$145,346	55

Additional information about each of the above-unsupported expense categories is as follows:

- Contractors - 15 transactions ranging from \$720 to \$3,000 were paid to contractors for various tasks. TDH could not provide invoices detailing the services provided and dates of service.
- Advertising/Marketing - Four (4) transactions, ranging from \$1,475 to \$3,000, were payments made to vendors such as Instagram, ChampionEd Consulting, and Network for Good.
- Supplies/Program Expense - 28 transactions ranging from \$125 to \$17,603 were payments made for various supplies and program-related expenses. Details regarding some of these transactions are as follows:
 - \$17,603 for a fundraising event;
 - \$13,170 for safety training;
 - \$5,040 paid to a national landscaping organization;
 - Three (3) check payments totaling \$5,524 for undisclosed purposes; and
 - \$4,538 paid to Amazon for supplies and materials.
- Rent/Utilities - Eight (8) transactions ranging from \$309 to \$30,000 were for rental and utility payments. Two (2) of the eight (8) payments totaled \$42,000 and were for the rental of equipment from the Executive Director's husband, who was actively serving as the Board Treasurer. See **Finding 1** related to potential conflicts of interest.

The Government Accountability Office (GAO publication on standards for internal controls (GAO-14-704G) (09/14), states the following about appropriate documentation of transactions and internal control activities:

“Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.”

Additionally, the grant applications required the organization to maintain documentation to support all grant expenditures as a condition of the grant award.

The failure to maintain adequate documentation to support grant transactions prevents management from effectively reviewing these transactions in detail when they were initiated or during a subsequent audit, ensuring that they were reasonable, accurate, and aligned with the organization's mission/purpose.

Finding #3: Inadequate Board Oversight

The Denney House, Inc. is a small organization whose daily operational and financial decisions are made solely by the Executive Director. With this structure in place, it is imperative that the organization has an active, impartial complement of Board Members to ensure that organizational and financial decisions are made with adequate oversight and approval. A review of the board meeting minutes, bylaws, and discussions with the Executive Director revealed the following areas of concern:

- **One board member lacked independence.** Until June 2023, the Executive Director's husband served as the Board Treasurer.
- **The board conducted an insufficient number of documented board meetings.** In August 2023, we requested a copy of the minutes for all board meetings held during 2021-2023. In response, we were presented with copies of minutes for meetings that took place on three separate dates: November 6, 2021, January 29, 2022, and August 6, 2022.

Based on the minutes provided, it appears the organization did not meet a minimum of four (4) times a year, as recommended by The Standards and required by its bylaws.

- **The board failed to perform adequate reviews of the organization's financial transactions.** Most of the organization's financial transactions were initiated or overseen by the Executive Director. With this structure in place, the Board of Directors must be proactive in reviewing and approving the organization's budget, along with performing appropriate comparisons to actual revenue and expenditures. A review of the Board meeting minutes provided for the audit revealed only one instance where the organization's budget was reviewed, and a request for actual financial information was made. Furthermore, at the time of this inquiry, the Executive Director's husband was the Board Treasurer and, thus, the party responsible for all financial reports.

The Standards for Excellence recommend that the board have at least five (5) independent and unrelated directors and that, at a minimum, the board meet four (4) times a year. Accurate minutes reflecting board and committee actions should be kept and distributed to all board members. Also, as the Standards of Excellence states, Committees with decision-making

authority should report any committee actions or decisions to the entire board. Those decisions must be reflected in the board minutes. The Standards of Excellence state that Board meetings should be structured around decision-making as well as board and committee actions.

Bylaws for the organization also have the following requirements regarding Board meetings:

- **Annual Meeting:** The annual meeting of the Board of Directors shall be a meeting held in the first quarter of each year to which the public can be invited, and a report of the mission, programs, and finances are made available.
- **Regular Meetings:** Regular meetings of the Board of Directors may be scheduled monthly with a minimum of one (1) meeting to be held per quarter.
- **Executive Board of Director Meetings:** The Executive Board of Directors shall meet monthly and report the business of the Board of Directors to the full Board of Directors at a regularly scheduled Board meeting, at which time all actions shall be ratified by the full Board of Directors.

The Board of Directors is responsible for providing oversight and accountability for the organization. Nonprofits that fail to adhere to sound governance principles may be at risk of poor management, wastefulness of resources, and public mistrust.

Finding #4: Political Campaign Contributions

A search of the Maryland Campaign Reporting Information System revealed that the Denney House contributed \$500 on April 9, 2022, and \$25 on October 15, 2018, to the political campaigns of two local candidates. The Internal Revenue Service (IRS) code prohibits 501 (c) (3) organizations from directly or indirectly participating in or intervening in the political campaigns of candidates for elective public office.

[The Internal Revenue Code](#) states the following:

“all section 501(c)(3) organizations are absolutely prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office. Contributions to political campaign funds or public statements of position (verbal or written) made on behalf of the organization in favor of or in opposition to any candidate for public office clearly violate the prohibition against political campaign activity. Violating this prohibition may result in denial or revocation of tax-exempt status and the imposition of certain excise taxes.

[Violation of IRS regulations](#) could result in the denial or revocation of the organization’s tax-exempt status and the imposition of certain excise taxes.

Finding #5: Inadequate Accounting Practices

At the start of the audit, A&I requested various financial reports (i.e., statement of activities, statement of financial position, bank reconciliations, etc.) that would provide an accurate accounting of the grant-related financial transactions for the period under audit.

A review of these reports revealed the following:

- 73 uncleared transactions totaling \$46,676 were noted on the bank and credit card reconciliations. These uncleared transactions were dated before the month being reconciled, which is abnormal, especially given that The Denney House conducts its accounting on a cash basis.
- Significant differences when comparing year-ending bank and credit card balances to the amounts listed on the statement of financial position. Additionally, several accounts were listed on the statement of financial position with balances, and there were no account statements or reconciliations to support their existence.

The Standards of Excellence state that "... Nonprofits should have sound financial and operational systems in place and should ensure that accurate records are kept. The organization's financial and non-financial resources must be used in furtherance of tax-exempt purposes. Organizations should conduct periodic reviews to address accuracy and transparency of financial and operational reporting, and safeguards to protect the integrity of the reporting systems. A nonprofit should create and maintain reports on a timely basis that accurately reflect the financial activity of the organization. Internal financial statements should be prepared at least quarterly, should be provided to the board of directors, and should identify and explain any material variation between actual and budgeted revenues and expenses."

The failure to keep an accurate accounting of financial activities could create an environment where recordkeeping and financial reporting are vulnerable to gross inaccuracies. Due to this failure, we had to implement alternative audit procedures that consisted of analyzing the organization's bank statements to provide a representation of the organization's financial activities to facilitate our audit procedures.

Finding #6: Lack of Written Policies and Procedures/Formal Timekeeping Process

The Denney House, Inc. does not have written policies and procedures in place, including a formal timekeeping process to document employee work hours and subsequent supervisory approval. A&I requested all written policies and procedures pertaining to the accounting and operational practices within the organization. However, the organization did not provide formal written policies and procedures to address these fundamental areas.

Currently, all of TDH's employees are paid based on their established hourly rate, and their hours worked are maintained by the Executive Director, which is subsequently used to facilitate

payroll processing. However, this informal timekeeping practice does not require the retention of documentation (i.e., timesheets) that capture pertinent information such as the day/time when hours were worked or signatures from either the employee or the employee's supervisor. As a result, the only documentation presented to support the hours worked by the employees included in our sample were payroll reports and not detailed timesheets.

The Standards for Excellence states that *"an effective nonprofit board should ... establish management policies and procedures, assure that adequate human and financial resources are available, and actively monitor the organization's allocation of resources to effectively and efficiently fulfill its mission."* The Standards for Excellence further stipulate that *"nonprofits should have written financial policies that are adequate for the size and complexity of the organization. These policies should address investment of the assets of the organization, internal controls, procurement, and unrestricted current net assets."* Additionally, *"a nonprofit should have written, board-approved personnel policies and procedures that govern the work, actions, and safety of all employees and volunteers of the organization."*

Sound timekeeping practices suggest that a system and processes be in place to support payroll/timekeeping functions, such as maintaining appropriate documentation that reflects hours worked, employee signature, and a supervisor's signature/approval.

A lack of written policies and procedures may result in staff taking varying approaches based on personal preferences, which can lead to organizational inconsistencies and inefficiencies. Furthermore, the lack of written procedures and a formal timekeeping process could prevent TDH from having accurate timekeeping records to support grant-funded activities.

Finding #7: Noncompliance with Grant Reporting Requirements

In FY 2022 and FY 2023, TDH was awarded six grants from the County Council, each requiring the submission of periodic progress reports. Below is a chart that outlines the grant awards, reporting due dates, and submission status.

Disbursement Date	Grant Type	Amount	Report Due Date(s)	Report Frequency	Report(s) Provided
3/14/2022	Non-Departmental (ND)	\$15,000	10/1/2022, 4/1/2023	Semi-Annual	Y*
6/30/2022	Special Appropriations Grant (SAG-At Large)	\$4,000	8/1/2023	Annual	N
6/30/2022	SAG- D7	\$2,000	9/1/2023	Annual	N
2/6/2023	Non- Departmental (ND)	\$80,000	8/1/2023, 2/1/2024	Semi-Annual	Y**
6/30/2023	Non-Departmental (ND)	\$40,000	2/1/2024, 8/1/2024	Semi-Annual	N
6/30/2023	SAG- D9	\$1,000	8/1/2024	Annual	N

*Report submitted on January 31, 2023

** Report submitted on November 30, 2023

TDH submitted periodic progress reports on January 31, 2023, and November 31, 2023, for the non-departmental grants in the amounts of \$15,000 and \$80,000. A&I noted that the issued reports were submitted after the required deadline. Furthermore, no reports were submitted to discuss the use of funding for the other grant awards made to TDH during the audit period.

In accordance with the Assurances Section of the Prince George's County Council Grant Application, the Organization (grantee) is required to provide periodic progress reports on the use of the grant funding as outlined below:

- Grants \$10,000 and below - Annual Report
- Grants \$10,001 to \$99,999 - Semi-Annual Reports (due every six months from the date grant funds were processed)
- Grants \$100,000 and above – Quarterly Reports (due every three months from the date grant funds were processed)

Failure to submit the required periodic reports in a timely is a violation of the grant requirements. This could result in a request to return unexpended grant funds and may jeopardize future grant awards to TDH.

RECOMMENDATIONS

Based upon the extent of the findings outlined in this report, we recommend the following:

1. The Prince George's County Government discontinue awarding The Denney House, Inc. grant funding at this time.
2. The Prince George's County Government require a refund of any grant funds awarded when an organization is not in compliance with the terms and conditions of the grant award, including funds expended for personal use and other unallowable expenses.
3. Prior to considering the organization for future non-departmental grant awards, the Prince George's County Government should require The Denney House, Inc. to obtain the Standards of Excellence Accreditation and Recognition (Basics Enhanced Tier or above) as evidence of the organization's accountability, openness, and commitment to best practices in governance and management.

A&I also made recommendations to the nonprofit organization to assist in improving and strengthening its internal controls. The findings and recommendations were shared with representatives from the organization prior to issuing this report (see **Attachment 1**) and the organization provided A&I with its plan of action to address these findings.

THE DENNEY HOUSE, INC.
STATEMENT OF ACTIVITIES
FOR THE PERIODS ENDING
DECEMBER 31, 2021, DECEMBER 31, 2022, and DECEMBER 31, 2023
(CASH BASIS-UNAUDITED)

	<u>2021</u>	<u>2022</u>	<u>2023</u>
REVENUES:			
Prince George's County Council Grants	\$ 8,000	\$ 21,000	\$ 221,000
Other Grants	100,000	25,000	45,000
Service Fees/Contract Income	247,941	44,031	39,600
Contributions/Other Income	54,422	120,342	145,118
Total Revenues	<u>\$ 410,363</u>	<u>\$ 210,373</u>	<u>\$ 450,718</u>
EXPENDITURES:			
Cash Withdrawals	\$ 2,200	\$ 1,500	\$ 300
Check Payments	23,476	20,703	35,994
Debit Card Purchases/Adjustments	74,438	64,501	72,021
Event Payment	—	8,325	—
Fees	253	179	792
Internet Payments	2,209	1,140	1,180
PayPal Payments	—	3,242	65
Payroll Tax	35,675	18,133	26,553
Payroll/Contractor Payments	188,199	162,056	181,195
Utilities	1,626	7,294	6,578
Zelle Payments	10,200	10,623	5,113
Credit Card Expenses	12,323	6,331	11,649
Miscellaneous	630	184	—
Total Expenditures	<u>\$ 351,229</u>	<u>\$ 304,211</u>	<u>\$ 341,440</u>
Excess Revenue Over/(Under) Expenditures	<u>\$ 59,134</u>	<u>\$ (93,838)</u>	<u>\$ 109,278</u>



THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

October 1, 2024

Khalilah Denney, Executive Director
The Denney House, Inc.
6502 Horseshoe Road
Clinton, MD 20735

Dear Ms. Denney,

The Office of Audits and Investigations (A&I) recently completed its review and met with representatives of your organization on July 23, 2024, to discuss our audit findings. The scope included all transactions related to the receipt and disbursement of the total grant funds received from July 1, 2021, through June 30, 2023 (a total of \$279,165). The objectives of our audit were to:

- Assess the adequacy of the system of internal and management controls over grant funds received and expended.
- Assess whether grant-related transactions occurred consistent with The Denney House, Inc.'s grant request applications and other generally accepted business practices.
- Identify factors inhibiting satisfactory performance in these areas and make recommendations to protect the County's interest regarding the grant funds.

While you provided additional information (amended 990 filings for 2022 and 2023) on August 5, 2024, and August 16, 2024, a review of the documents did not result in significant changes to the observations noted during our review. **The following deficiencies were noted during our review:**

1. **Potential Conflicts of Interest:** A review of the presented organizational and financial documentation revealed several agreements between The Denney House, Inc. (TDH), former and current Board members, and the Executive Director. Discussion and approval of these agreements were not documented in the board meeting minutes provided for our review. Furthermore, information on the agreements and/or transactions with related organizations was not disclosed on the organization's IRS Form 990 for 2021 or the grant applications submitted to the Prince George's County Government. The agreements are as follows:
 - a. **Property 1** () - This property serves as TDH's administrative office. The rental amount was initially set at \$2,500 a month, covering the period of September 2022 through August 2023, but was later increased to \$3,000 per month through a lease renewal dated May 2023. The property's listed owners are the former Board Treasurer and the Executive Director. **The Executive Director also acknowledged that the property is their primary residence.** Rent payments, and 1099s were issued to Denney's Consulting, LLC, a *for-profit* organization.
 - b. **Property 2** () – This property was initially intended to serve as a transitional home for women but was later transitioned to a home for men. The rental amount was initially set at \$2,500 monthly from September 2021 through August 2024 but was later increased to \$3,000 per month through a lease renewal dated May 2022. The property's listed owners are the former Board Treasurer and the Executive Director.

Although the signed lease agreement identified the former Board Treasurer as the landlord, payments, and 1099s were issued to Denney's Consulting, LLC.

- c. Property 3 () - This property served as a transitional home but is no longer in use. The rental amount was \$3,000 monthly for the period July 2022 through June 2024. The property's listed owner is LLC. Although the signed sublease agreement listed the former Board Treasurer as the sublessor, payments and 1099s were issued to Realty.
 - d. Property 4 () - This property served as a transitional home but is no longer in use. The rental amount was set at \$3,000 a month for the period June 2021 through May 2023. The property's listed owner is Assoc LTS Partnership. Although the signed sublease agreement listed the former Board Treasurer as the sublessor, payments were made, and 1099s were issued to Realty. Effective March 2023, the payments were made to Denney's Consulting, LLC.
 - e. Equipment - TDH had an agreement with the former Board Treasurer (and husband of the Executive Director) for the rental of equipment used to provide Stormwater Pond Maintenance for the Department of Public Works and Transportation (DPW&T). Although TDH did not provide a copy of the contract agreement, a review of 1099s issued by TDH revealed that the organization paid \$63,000 to Mr. Denney in 2021 for equipment rental. At the time these rental payments were made, the Executive Director's husband was actively serving as the Board Treasurer.
 - f. Consulting Services - A current Board member/Advisor was paid for services she rendered from 2021-2023. TDH presented an offer letter dated May 2, 2022, for her to serve as a Program Manager for The Denney House Empowerment Institute. She was to be paid as a contractor at \$30/hour. However, a review of accounting records revealed that the Board member was paid beginning in 2021. According to the 1099s issued, the Board Member was paid a total of \$10,200, \$20,885, and \$23,700 for 2021, 2022, and 2023, respectively, through her established Limited Liability Company (LLC). A&I verified the 1099 payments for 2021; however, a review of the accounting records revealed more was paid to the Board Member than was reported on the 1099s. We noted variances for 2022 and 2023 were \$1,475 and \$6,150, respectively.
2. **Transfers Between Nonprofit and Personal Accounts** - A review of the organization's bank statements from 2021-2023 revealed six (6) transfers between the organization's bank accounts (ending in 6315 and 6991) and a personal account (ending in 7027). According to the Executive Director, the personal account is linked to Denney's Consulting, LLC. A review of the transfers that occurred during the audit period revealed a net debit of \$5,000 from the organization's bank account.
3. **Lack of Documentation to Support Grant Expenditures**: A&I requested supporting documentation for 72 transactions totaling \$176,900 for testing. The organization did not provide adequate supporting documentation (i.e., invoices/receipts) for 55 transactions totaling \$145,346, or 82% of the sample selected for testing.
4. **Inadequate Board Oversight**: A review of the board meeting minutes, bylaws, and discussions with the Executive Director revealed that one board member lacked independence (the Executive Director's husband served as the Board Treasurer), the board conducted an insufficient number of documented board meetings, and the board failed to perform adequate reviews of the organization's financial transactions. Most of the organization's financial transactions were initiated or overseen by the Executive Director. With this structure in place, the Board of Directors must be proactive

in reviewing and approving the organization's budget, along with performing appropriate comparisons to actual revenue and expenditures.

5. **Political Campaign Contributions:** A search of the Maryland Campaign Reporting Information System revealed that The Denney House, Inc. contributed \$500 on April 9, 2022, and \$25 on October 15, 2018, to the political campaigns of two local candidates.
6. **Inadequate Accounting Practices:** A review of the organization's financial reports revealed 73 uncleared transactions totaling \$46,676 on the bank and credit card reconciliations and significant differences when comparing the year-ending bank and credit card balances to the amounts listed on the statement of financial position. Due to the inadequate accounting practices, A&I had to implement alternative audit procedures that consisted of analyzing the organization's bank statements to provide a representation of the organization's financial activities.
7. **Lack of Written Policies and Procedures/Formal Timekeeping Process:** The Denney House, Inc. lacks written policies and procedures, including a formal timekeeping process to document employee work hours and subsequent supervisory approval.
8. **Noncompliance with Grant Reporting Requirements:** The organization submitted two (2) out of the nine (9) required periodic progress reports for grants awarded in FY 2022 and FY 2023, and the reports were not submitted by the required deadline.

Recommendations:

Based on the critical findings noted in this audit, The Denney House, Inc. should immediately address the deficiencies noted and implement the following recommendations:

1. Follow its bylaws by documenting a detailed discussion and subsequent vote regarding any situation where a board member proposes to receive direct or indirect compensation from the organization. Furthermore, TDH should strengthen its bylaws to address situations where a potential conflict of interest could compromise the decision-making and independence of its Board of Directors. TDH should also make efforts to avoid using vendors who aren't independent of the organization, including the Board members, to avoid a conflict of interest, whether real or perceived.
2. Maintain appropriate documentation to support all transactions, including, but not limited to, check copies, signed contract agreements, and detailed receipts/invoices. Per IRS guidelines, documentation should be maintained for at least three years after filing the tax return.
3. Evaluate and strengthen its Board of Directors to ensure the Board can provide the appropriate oversight of the organization by:
 - Refraining from appointing Board members who aren't independent in fact and appearance. The Board of Directors should consist of competent, independent, unrelated individuals.
 - Conducting board meetings at least four (4) times a year. These meetings should be thoroughly documented and include discussions about operations, budget and expenditure approval (due to the lack of staffing to support adequate segregation of duties), and other financial-related topics.
4. Ensure it complies with all Federal, State, and Local laws and regulations that apply to 501(c)(3) nonprofit organizations.
5. Take the necessary steps to ensure that a sound accounting and internal control system is in place to properly account for future funding it may receive. A strong internal control system includes utilizing knowledgeable personnel to conduct its accounting functions to ensure accurate financial

statements are produced.

6. Take the necessary steps to ensure that formal written procedures and processes are in place to address all aspects of operations, including documenting employee work hours via a timesheet that captures an employee's signature and the supervisor's signature/approval.
7. Submit the required periodic reporting for all grant awards received. Furthermore, TDH should implement adequate internal controls to ensure timely submission of reports for future grant awards.

Conclusion:

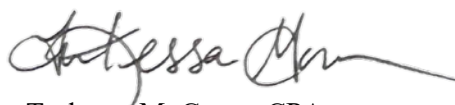
As a result of the deficiencies noted during our review, we have advised the Prince George's County Government not to award any grant funding to your organization at this time. Please note that our audits have a defined scope and do not involve ongoing assessments of an organization deemed ineligible for grant funding. Hence, our Office will not consider the submission of information provided *after* the audit has concluded. To allow your organization sufficient time to establish and implement improvements to your fiscal management system and overall operations, changes to internal control processes should be in place and functioning for at least one (1) year.

We hope the organization will use the above recommendations to improve and enhance its operations. The organization is strongly encouraged to obtain the Standards of Excellence Accreditation and Recognition (Basics Enhanced Tier or above) as evidence of the organization's accountability, openness, and commitment to best practices in governance and management. See [Standards for Excellence Institute > About You > For Nonprofits](#) for more information.

Please be advised that the Office of Audits and Investigations does not make decisions regarding the award of grant funds. The final determination of an organization's eligibility to receive grant funding is ultimately with senior leadership in the Executive and Legislative branches of the Prince George's County Government.

Please contact me if you have any questions regarding the audit matters noted. Thank you.

Sincerely,



Turkessa M. Green, CPA
County Auditor

cc: Jennifer A. Jenkins, Council Administrator
Colette R. Gresham, Deputy Council Administrator
Karen T. Zavakos, Associate Council Administrator
Inez N. Claggett, Director, Council Office of Finance