

NATIONAL PHILIPPINE CULTURAL FOUNDATION, INC.

GRANT AUDIT
March 2006 - May 2011

OFFICE OF AUDITS AND INVESTIGATIONS
Prince George's County
Upper Marlboro, Maryland

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THE PRINCE GEORGE'S COUNTY GOVERNMENT
Office of Audits and Investigations

September 5, 2014

Imelda C. Abella
Advisory Board Chair
National Philippine Cultural Foundation, Inc.
7500 Livingston Road
Oxon Hill, MD 20745-1725

Dear Ms. Abella,

Enclosed is a copy of a draft of our grant audit report for the National Philippine Cultural Foundation, Inc. The report covers grant funding received from Prince George's County, Maryland, for the period March 9, 2006, through May 31, 2011. This audit was conducted in accordance with Prince George's County Council Resolution 51-1991, adopted June 25, 1991, which requires the Office of Audits and Investigations to perform random financial audits of grants and transfer payments appropriated in the Non-Departmental Section of the County's annual current expense budget.

We noted several substantial findings during the course of our audit and have outlined those findings in our report. Should you have any comments pertaining to our findings you may submit them to our office in writing and request a formal meeting to discuss the report. Natalie Beckwith, Auditor-in-Charge, will call your offices on September 22, 2014 to determine whether you would like to meet with us to discuss the report.

Your cooperation in this matter will be greatly appreciated.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. H. Van Dyke", is written over a faint, larger signature.

David H. Van Dyke, CPA
County Auditor

cc: Romeo Ramirez, Treasurer

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THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

November 2014

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 to perform random financial audits of grants and transfer payments appropriated in the Non-Departmental section of the County's annual current expense budget.

We have examined the books and records of the

NATIONAL PHILIPPINE CULTURAL FOUNDATION, INC.

for the period March 9, 2006 through May 31, 2011. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances.

We noted several matters involving the Prince George's County grant to the National Philippine Cultural Foundation, Inc., that led us to believe that the County grant funds were not used for the intended purpose. These matters are described in the Findings, Comments, and Recommendations section of this report.

The findings contained in this report were referred to the Office of the State's Attorney in February 2012, for review, as a result of our concerns related to the use of the grant funds. As of June 4, 2014, the Office of the State's Attorney has reported that they do not intend to take any action at this time, with respect to the issues reported.

This report, in our opinion, fulfills the requirements of Council Resolution 51-1991 concerning random financial audits of grants and transfer payments made pursuant to the Non-Departmental section of the Prince George's County, Maryland, fiscal years 2009, 2010, and 2011 Approved Current Expense Budgets.

A blue ink signature of David H. Van Dyke, CPA, County Auditor.

David H. Van Dyke, CPA
County Auditor

A black ink signature of Natalie M. Beckwith, Auditor-In-Charge.

Natalie M. Beckwith
Auditor-In-Charge

National Philippine Cultural Foundation, Inc.

BACKGROUND

The National Philippine Cultural Foundation, Inc., (Foundation) was established in June 2000, by a group of concerned community leaders in an effort to promote awareness of the beauty of the Philippine cultural heritage and emphasize the value of the economic, social, cultural, and religious contributions made to the County by Filipino-Americans. The Foundation is a 501(c)(3), non-profit organization.

The Prince George's County Government includes funds in its Non-Departmental budget category to satisfy grant requests that may come from County non-profit organizations. In July of 2006 and August of 2008, the Foundation submitted grant applications to the Prince George's County Executive's Office requesting \$500,000 and \$350,000, respectively, to renovate, construct, expand, support, and start-up a multi-cultural center at a leased facility on Livingston Road. The multicultural center was slated to showcase the culture and traditions of Filipino-Americans and to provide a venue for performing and visual arts, exhibits, and cultural exchanges.

The Prince George's County Executive's Office awarded six (6) grants totaling \$1,660,500 to the Foundation during the fiscal years 2006, 2007, 2008, 2009, 2010, and 2011. These grants were issued in March 2006, July 2006, July 2007, September 2008, September 2009, and July 2010 as follows in Exhibit 1:

<i>Date of Award</i>	<i>Grant Amount</i>
03/09/06	\$500
07/24/06	\$500,000
07/26/07	\$60,000
09/03/08	\$350,000
09/28/09	\$250,000
07/28/10	\$500,000
Total	\$1,660,500

(Exhibit 1)

Grant funding request documentation was only available for the July 2006 and August 2008 awards.

In FY 2006, County Resolution 32-2006 was passed. This legislation identified nineteen (19) County owned parcels as surplus property and approved the County Executive's plan for disposal of the properties. The former District IV County Police Station, located at 7500 Livingston Road in Oxon Hill, was included in the resolution. On December 6, 2007, the County entered into a lease agreement with the National Philippine Cultural Foundation, Inc., to lease the former District IV County Police Station for charitable purposes, for a period of 30 years, at a rate of \$1 per year. The lease agreement also stipulated that the Foundation would be

responsible for payment of any related real property taxes and assessments as due, and would provide the County with audited financial statements on an annual basis.¹

OBJECTIVE, SCOPE AND METHODOLOGY

Our objectives 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 Foundation's grant request application 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.

Our scope included all transactions related to the receipt and disbursement of the total grant funds received from March 2006 through May 2011 (a total of \$1,660,500).

The criteria used to evaluate the audit evidence gathered included:

- ◆ Council Resolution 32-2006;
- ◆ The Foundation's grant request applications;²
- ◆ The December 2007 lease agreement between the County and the Foundation;
- ◆ The Foundation's Federal Form 990 returns for 2007 through 2010; and
- ◆ The United States General Accountability Office standards for internal control publication (GAO/AIMD-00-21.3.1).

Our audit included interviews with the Foundation's key personnel and detailed tests including:

- ◆ A review of the organization's available Board of Directors' Resolutions;
- ◆ An examination of the organization's monthly bank statements and the related transactions (January 2009 through May 2011);³ and
- ◆ A review of all available cash receipts and disbursements documentation.

Our field work related to the audit was completed on December 7, 2011.

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.

¹ The Foundation has not provided the County with annual audited financial statements.

² The Office of Audits and Investigations was only able to locate grant funding request documentation for the July 2006 and August 2008 requests.

³ The Office of Audits and Investigations was unable to locate any Foundation financial records or transaction documentation prior to January 2009.

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.

Our review revealed that basic internal controls regarding the safeguarding of cash and other assets were lacking. The Foundation did not have a formal accounting system or consistent accounting practices in place, and we could not determine exactly what the official duties of the Foundation's Treasurer entailed. There were no written procedures in place outlining the Foundation's financial practices and policies.

Key documents including copies of checks, signed contracts, formal budgets, and monthly and/or annual statements could not be located. We were unable to verify numerous transactions and data throughout the course of the review.

The practice of maintaining official minutes of every board meeting was not being performed. During our initial entrance conference, the Foundation informed us that official minutes were taken and retained at each board meeting, however, upon examination of the Foundation's records, we were unable to locate any board minutes.

ORGANIZATIONAL STRUCTURE AND SEGREGATION OF DUTIES

The basic structure of the organization remains unclear. Although the Foundation provided us with a listing of the Board of Directors, the hierarchy of the organization could not be determined. Based on our observations, it appeared that the Foundation's General Counsel was responsible for making key decisions and acted as the official spokesperson throughout the audit process.

The Foundation's Treasurer handled all of the day-to-day cash related transactions. We noted that there was no segregation of duties regarding the handling of cash receipts and disbursements. The Treasurer received and deposited all cash receipts and was the sole individual responsible for securing the checkbook, and writing all checks. The Foundation's main primary operating account only required the Treasurer's signature on checks instead of requiring dual signature authority.

KEY FINANCIAL RECORDS

The Foundation was asked to provide all financial documents for examination. A typical entity will create and maintain certain key financial documents such as an income statement, a balance sheet, monthly bank reconciliations, budget variance reports, and annual financial statements. The Foundation informed us that they do not create, produce or maintain any financial statements.

The Foundation secured the services of a bookkeeper in 2011, but it remains unclear what those services entailed. The Foundation routinely hired a CPA firm to prepare their annual Federal Income Tax Form 990 for tax years 2007 through 2010. No additional accounting or consulting

services were provided by the CPA firm. It is unclear what documents were utilized by the CPA firm to prepare the annual income tax forms.

We reviewed the Foundation's Federal Form 990 for the years 2007 through 2010, and compared the 2009 and 2010 Form 990's to the bank statements and check registers that were provided by the Foundation. We were unable to cross-reference or verify the information on the Form 990's to the bank statements or check registers.

The Treasurer retained copies of the monthly bank statements for the main checking account; however no bank reconciliations were performed.

Additionally, as required per the December 2007 lease agreement with the County for the Livingston Road property, the Foundation has yet to provide the County with annual audited financial statements.

CASH RECEIPTS

The Foundation's Treasurer was responsible for securing and depositing all cash receipts. No formal written procedures were in place for the processing of cash receipts, nor was there a uniform process for depositing funds. During the course of our review, we noted seventeen (17) separate banking instruments, all with Old Line Bank totaling \$352,417.66, as of May 31, 2011. The accounts vary in type from traditional checking accounts to certificate of deposit accounts to money market accounts.

A breakdown of the accounts is shown as follows in Exhibit 2:

<i>Account Number</i>	<i>Account Type</i>	<i>Additional Information</i>	<i>Ending Balance as of May 31, 2011</i>
xxxx3411	Checking	Primary operating account	\$32,259.61
xxxx3411-06	Money Market		0.00
xxxx CD 37	Certificate of Deposit		707.30
xxxx CD 38	Certificate of Deposit	Initial deposit \$75,000 9/24/08	0.00
xxxx CD 39	Certificate of Deposit	Initial deposit \$75,000 9/24/08	0.00
xxxx CD 40	Certificate of Deposit	Initial deposit \$75,000 9/24/08	0.00
xxxx CD 41	Certificate of Deposit	Initial deposit \$75,000 9/24/08	0.00
xxxx1119	Checking	Corporate Checking Account	6,950.75 ⁴
xxxx1278	Certificate of Deposit	Initial deposit \$250,000 10/09/09	0.00
xxxx CD 132	Certificate of Deposit	Initial deposit \$62,500 08/10/10	0.00
xxxx CD 141	Certificate of Deposit	Initial deposit \$62,500 08/10/10	0.00
xxxx CD 070	Certificate of Deposit	Initial deposit \$62,500 08/10/10	0.00
xxxx CD 105	Certificate of Deposit	Initial deposit \$62,500 08/10/10	62,500.00
xxxx CD 114	Certificate of Deposit	Initial deposit \$62,500 08/10/10	62,500.00
xxxx CD 061	Certificate of Deposit	Initial deposit \$62,500 08/10/10	62,500.00
xxxx CD 123	Certificate of Deposit	Initial deposit \$62,500 08/10/10	62,500.00
xxxx CD 099	Certificate of Deposit	Initial deposit \$62,500 08/10/10	<u>62,500.00</u>
Total			\$352,417.66

(Exhibit 2)

Based on our review, it appeared that the Foundation would deposit County grant funds into a Certificate of Deposit or money market account, and then transfer the funds into the main checking account on an as needed basis. There have also been occasions when County grant funds have been deposited directly into the main checking account.

We were unable to verify whether or not any additional banking accounts were in existence since we could not verify all sources of revenue and expenditures.

⁴ The latest available bank statement was dated February 28, 2011.

We were able to determine that the Foundation had additional sources of revenue in addition to the grant funds that it received from Prince George's County. We noted several miscellaneous non-County deposits, as well as a grant award received from the State of Maryland. Schedule 1 shows the sources of revenue and related expenditures that we were able to verify for fiscal years 2009 through 2011.

Although we were able to verify the County grants awarded to the Foundation based on County records for fiscal years 2006, 2007 and 2008 in the amounts of \$500, \$500,000 and \$60,000 respectively, Schedule 1 only displays the revenues and expenditures since fiscal year 2009 since there were no Foundation records available for activity prior to January 2009.

CASH DISBURSEMENTS

The Foundation's Treasurer was responsible for maintaining the checkbook. According to the Treasurer, there was only one checkbook for the main checking account and it was located in the desk drawer at the home of the Treasurer. No one else had access or signature authority except the Treasurer. There were no written procedures regarding the processing of cash disbursements and there was no consistent practice in place for processing bills. From January 2009 through May 2011, we determined that the Foundation incurred expenses totaling \$818,338.69. Schedule 1 shows the categories of expenses we were able to verify and account for, in addition to revenues for the period.

The Treasurer would make a copy of a check written and match it up with the applicable invoice and place it in a binder each month, thus creating a check register. This was the Foundation's practice; however it was not adhered to for each payment. The generally accepted practice is to match an invoice with a purchase order and receiving report (or shipping document); write a check to the vendor, then record the check in the organization's check register. We had to rely on the bank statements for expenditure information because numerous check copies were missing from the check register. No monthly bank reconciliations, monthly financial reports, or budgets were generated by the Foundation.

During the course of the audit, we reviewed each expenditure recorded on the bank statement or in the check register from January 2009 through May 2011. Each expenditure was examined to ensure that it fell within the parameters of the Foundation's core mission and the County's allowable expenditures. Upon examination of these records, we noted various areas of concern.

The Foundation engaged a number of individuals for the purpose of renovating and maintaining the leased property located at 7500 Livingston Road. These individuals were tasked with various responsibilities, including drywall work, carpentry, lawn care, painting, etc. The amount of hours of service that these individuals rendered to the Foundation were recorded on a weekly time sheet. At the end of each week, the total hours for each individual was multiplied by an hourly rate, resulting in the amount owed to the individual. The Treasurer would then write a check to himself, cash the check, and pay the individuals in cash. The individuals would then sign the timesheet, acknowledging receipt of payment.

During the course of the audit, we noted that from January 2009 through May 2011, the Foundation paid thirty-six (36) different individuals wages in exchange for services rendered.

The hourly wage rate paid and the number of hours worked by these individuals was recorded on time sheets. Wages paid to these individuals totaled \$95,208.00 for the years reviewed.

Of the thirty-six (36) individuals paid in calendar years 2009, 2010, and 2011, annual payments totaling \$600 or more to individuals were made in twenty-eight (28) instances, totaling \$91,516, as shown in Exhibit 3:

	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>Total</i>
Individuals receiving \$600 or more	7	12	9	28
Annual Payment Total	\$15,004.00	\$48,165.00	\$28,347.00	\$91,516.00

(Exhibit 3)

According to Section 530 of the Revenue Act of 1978, any individual receiving income totaling \$600 or more should be issued a form 1099-MISC from the organization making payment. When asked if the Foundation was currently issuing Form 1099-MISC to these individuals, we were informed by the Treasurer and General Counsel that the practice was not being followed.

We also noted that the wives of two individuals were paid by check instead of the individual performing the service. These payments totaled \$4,255.00 and \$4,444.23 respectively.

During the course of the review, we also determined that the Treasurer was writing checks to himself and categorizing them as payments to volunteers or as reimbursements for various expenses, with no prior approval from an authoritative member of the Foundation. From January 2009 through May 2011, the Treasurer wrote 154 checks to himself totaling \$129,183.11.

As a part of the review, we tested each expenditure for the period January 2009 through May 2011, to determine if any supporting documentation existed regarding the expenses. We noted several items of concern during the examination. Many expenses incurred had either no related supporting documentation or the supporting documentation was in the form of a handwritten note. Many check copies were not included in the check register and no other related information could be found for these items. When we inquired about the missing documentation for several key purchases, the Foundation subsequently produced Board Resolutions attesting to the validity of the expense. These Board Resolutions do not satisfy our supporting documentation requirement. Of the 808 items tested, we determined the following regarding supporting documentation as shown in Exhibit 4:

<i>Documentation Type</i>	<i>Amount</i>	<i>Frequency</i>	<i>Percentage</i>
No documentation	\$240,442.23	120	14.9%
Board Resolution	92,325.00	14	1.7%
Not in check register	81,804.55	111	13.7%
Hand written notes	64,569.88	52	6.4%
Acceptable items	339,197.03	511	63.3%
Total	\$818,338.69	808	

(Exhibit 4)

During the course of the review, we categorized each expenditure into the following three classifications: allowable, questionable, or unallowable. We defined allowable costs as being consistent with the organization's mission and purpose of the grant as well as having the appropriate supporting documentation. Questionable costs are defined as expenditures that may have been somewhat related to the organization's mission or purpose of the grant that had unacceptable supporting documentation or no documentation at all. Any checks written out to cash or the Treasurer were also deemed questionable as well as equipment items that could not be located or verified. Unallowable costs are defined as expenditures that were not related to the mission of the organization or purpose of the grant and/or appeared inappropriate. The results are as follows as shown in Exhibit 5:

<i>Expenditure Status</i>	<i>Amount</i>	<i>Frequency</i>	<i>Percentage</i>
Allowable	\$198,627.08	297	36.8%
Questionable	543,063.17	430	53.2%
Unallowable	76,648.44	81	10.0%
Total	\$818,338.69	808	

(Exhibit 5)

Questionable items are further categorized as follows as shown in Exhibit 6:

<i>Category</i>	<i>Amount</i>	<i>Justification</i>
Accounting	\$7,714.00	No supporting documentation / services could not be verified
Advertisement	1,500.00	Insufficient supporting documentation
Furniture	2,084.92	No supporting documentation
Insurance	12,263.89	Policy origin unknown
Internet	765.00	No supporting documentation
Legal Fees	16,000.00	Insufficient supporting documentation
Petty Cash	2,169.02	All checks written to the Treasurer by the Treasurer
Piano	1,500.00	No supporting documentation
Property Tax	41.00	No supporting documentation
Reimbursements	18,518.14	All checks written to the Treasurer by the Treasurer
Renovation	320,748.08	Insufficient supporting documentation
Wages to Workers	102,535.17	All checks written to the Treasurer by the Treasurer
Special Events	12,093.05	No supporting documentation; purpose of events were not stated
Supplies	9,629.16	Insufficient documentation
Unknown	490.00	No supporting documentation and origin of item unknown
Utilities	15,166.18	No supporting documentation
Vehicle	10,032.96	Insufficient documentation; checks written to Treasurer by Treasurer
Water	412.60	No supporting documentation
Copier	9,400.00	Could not locate copier
Total	\$543,063.17	

(Exhibit 6)

The Foundation made several large payments to vendors for various services without formal contracts or supporting documentation in place. For example, three (3) individuals received monthly salary payments, at various times throughout the review period, but had no formal written agreement with the Foundation. Although, there was evidence at the multi-cultural center that renovation work had been performed, the nature of the responsibilities of the individuals in question remains unclear.

The Foundation also made a payment to a company referred to as "CDR" in the amount of \$9,400 for the purchase of a copier; we were unable to locate the copier. Included in the questionable items was a payment to an affiliate of the Foundation in the amount of \$2,389 for a vacuum cleaner system (included in the supplies category). Neither of these expenditures appears to support the mission of the Foundation.

In total, we classified 81 transactions totaling \$76,648.44 as unallowable as shown in Exhibit 7:

<i>Category</i>	<i>Amount</i>
Repayment of Loan #1	\$18,000.00
Wages to Workers	10,218.59
Reimbursements	10,114.66
Repayment of Loan #2 - Vehicle	8,781.63
Repayment of Loan #3	7,600.00
Renovation	5,856.69
Gifts	4,927.67
Sponsorship	3,530.00
Property Tax	2,810.63
Food	1,182.31
Direct TV	1,000.00
Loan	1,000.00
Pay Advance	500.00
Supplies	426.26
Entertainment / Tickets	400.00
Parking Tickets	300.00
Total	\$76,648.44

(Exhibit 7)

The Foundation made payments categorized as "repayment of loan" to the General Counsel during the review period. The Foundation could not produce any loan agreement documentation and also could not communicate verbally the total dollar amount that the individual had loaned to the Foundation. This individual received a total of \$18,000 in loan repayments. The same individual also received payments for legal fees of \$6,000, the sale of a Ford F-150 truck for \$7,500, and an uncategorized payment of \$5,125.

The Foundation made payments to several of its workers that we deemed were unallowable. We noted a total of \$10,218.59 of these disbursements. These payments were categorized as unallowable for various reasons. Those reasons include payments to the spouse instead of to the worker and hand-written notes as justification for payment.

We also noted \$10,114.66 in unallowable reimbursement costs in fourteen (14) different instances. These expenses included payments to grocery stores, pizza parlors, gas stations, and fast food restaurants. These costs also included a reimbursement payment to a Foundation affiliate in the amount of \$4,000; we could not locate any related supporting documentation. In the fourteen (14) instances where an unallowable reimbursement payment was discovered, we noted that the Treasurer wrote eleven (11) of the checks to himself.

The Foundation secured a business loan from Old Line Bank in the amount of \$35,384.11 to purchase a 2008 Dodge Caravan on April 5, 2010; monthly principal and interest payment for the loan totaled \$675.57. As of the date of completion of our field work, the Foundation had made a total of \$8,781.63 in loan payments to Old Line Bank. It should also be noted that the Kelly Blue Book value of a 2008 Dodge Caravan in good condition did not exceed \$16,500.

The Foundation also made an additional payment to a second affiliate in the amount of \$7,600. This payment was also categorized as a loan repayment; however no supporting documentation regarding the loan was located.

The Foundation reimbursed a volunteer \$5,125.00 for renovation costs; no back up documentation for this payment was located. The Foundation also reimbursed one of its workers \$731.69 for non-Foundation related car repairs.

The Foundation purchased a combination of materials and gift cards in the amount of \$4,000 to serve as Christmas gifts to its workers in 2009. The Foundation also spent another \$927.67 on sweaters, jackets and other items as Christmas gifts to its workers in 2010.

The Foundation spent \$3,530.00 in sponsorship costs. These costs included \$1,400 in golf tournament fees, and \$2,130 in charitable contributions to other non-profit organizations.

During the course of the review, we determined that the Foundation purchased property located at 10501 Thorne Drive, Fort Washington, MD, in 2006, at a cost of \$225,000 on August 2, 2006. This property is separate from the property related to the Foundation's County grant. On two separate occasions the Foundation utilized \$2,810.63 in County grant funding to satisfy the annual property tax bills related to the Fort Washington property. Members of the Foundation provided us with a copy of the settlement statement produced at the time of purchase, but did not offer any additional information regarding the property.

The Foundation spent \$1,182.31 on food items. Although food items are allowable in the case of a special event, the amount(s) could not be traced to a special event. The costs included items purchased at a local restaurant or items that were prepared by an affiliate of the Foundation.

The Foundation made a payment to an individual in the amount of \$1,000 for a "TV Hook Up Direct TV"; however no monthly Direct TV invoices or subscription documentation could be located.

Also included in the unallowable expenditures category was a loan of \$1,000 to one worker and a pay advance of \$500 to another. During our examination, we did find evidence that the loan of \$1,000 was repaid in-full.

We also identified supplies purchased in the amount of \$426.26. These items included airbeds, pillows and blankets.

The Foundation expended \$400 for entertainment / tickets to various social functions and \$300 in parking tickets to the Prince George's County Revenue Authority and the District of Columbia.

OTHER ISSUES

Utility Bills

During the course of the audit, we reviewed the utility bills related to the Livingston Road property. We noted invoices received from Washington Gas for natural gas service and from Verizon for telephone and internet service. We were unable to locate any electricity bills or water and sewer bills from the Washington Suburban Sanitary Commission. We inquired with the Foundation regarding the nature of the utility service provided to the building and were informed by the Treasurer that the County was paying certain utility bills. We reviewed the Foundation's lease agreement and discovered that there was no provision within the lease agreement that designated the County as the party responsible for paying any utility bills. Upon further discussion with the County's Office of Central Services, we learned that all County owned properties are listed on a combined aggregate utility bill that the County is responsible for, and if any of these buildings is leased to an outside entity, the building is removed from the aggregate bill and responsibility of payment is then transferred to the lessee. In this case, a transfer was not made in conjunction with the signing of the lease. As of the date of completion of our field work, the County had paid approximately \$2,800 in utility bills for the Foundation. The County is currently in the process of removing the Livingston Road property from the aggregate utility bill list and turning the responsibility of paying the bills over to the Foundation.

Inspections and Permits

Major renovation work to a building requires County issued permits. An organization must secure an initial renovation permit before any actual work can begin. Upon approval of the initial renovation permit an organization can then move to request the appropriate trade permits, such as electrical, fire alarm, sprinkler system, etc.

The Foundation was granted a renovation permit on May 7, 2008, by the Department of Environmental Resources (DER). Upon inspection of the beginning renovation work that had been done on the building, DER inspectors discovered that the Foundation had performed some work outside of the scope of the permit. The Foundation did resolve some of the inspection issues and moved forward to request their trade permits. Because of a lack of administrative expertise in the renovation process, and other unresolved inspection issues, DER mandated that the Foundation secure the services of an outside third-party inspection professional to address any further permit requests or issues that might arise.

As of the date of completion of our field work, DER has granted the Foundation three temporary Use and Occupancy (U&O) permits and at least two temporary one day event permits. The Foundation's latest U&O permit expired on December 15, 2011. To receive a final use and

occupancy certificate the Foundation has a number of inspection issues to address for approval by the third-party inspector and the County. Items include but are not limited to fire protection, electrical systems, mechanical systems, food service equipment, and structural certification of the building. The Foundation must also modify its water line system and obtain a final approval from the Washington Suburban Sanitary Commission.

Until the inspection and permit issues are resolved, the Foundation should not be utilizing the building for its intended and planned usage, otherwise the Foundation is in violation of the Building Code.

RECOMMENDATIONS

- 1. The County refrain from providing any further grant awards to the National Philippine Cultural Foundation, Inc., until the organization can demonstrate the existence of a sound accounting and internal control system that can properly account for funding and document its financial operations.**
- 2. The Office of Law review the findings and determine whether any legal action is necessary to recover grant funding that was expended inappropriately.**
- 3. The Office of Law and/or the Office of Finance take the appropriate steps necessary to recover any remaining grant funding that was awarded to the Foundation.**
- 4. The Office of Central Services ensure the County is removed as the party responsible for utility bills for the Livingston Road property leased by the Foundation.**
- 5. The Department of Permitting, Inspections and Enforcement ensure compliance with inspection and permit issues prior to issuing a Use and Occupancy Permit or any other permits of a temporary nature.**
- 6. The Foundation take the necessary steps to correct the non-compliance issues with IRS regulations related to payment of wages; and comply with the lease provision of providing annual audited financial statements to the County.**

NATIONAL PHILIPPINE CULTURAL FOUNDATION, INC.
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2011
CASH BASIS

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Total</u>
<u>REVENUE</u>				
County Grant Payments	\$ 350,000	\$ 250,000	\$ 500,000	\$ 1,100,000
MD State Grant	-	25,000	-	25,000
Interest Payments	4,796	5,615	396	10,808
Miscellaneous Deposits	300	10,897	6,501	17,698
Total Revenue	\$ 355,096	\$ 291,512	\$ 506,897	\$ 1,153,505
<u>EXPENDITURES</u>				
Accounting	\$ 2,473	\$ 2,613	\$ 2,625	\$ 7,711
Advertisement	1,500	-	1,087	2,587
Citation	-	200	-	200
Direct TV	-	1,000	-	1,000
Entertainment	-	-	200	200
Food	-	365	967	1,332
Furniture	-	2,210	1,250	3,460
Gifts	-	4,000	928	4,928
Insurance	-	4,322	8,452	12,774
Internet	45	630	495	1,170
Legal Fees	-	2,081	16,000	18,081
Loan	-	1,000	-	1,000
Parking Ticket	-	100	-	100
Pay Advance	-	-	500	500
Petty Cash	669	1,500	-	2,169
Piano	-	-	1,600	1,600
Property Tax	-	2,783	7,142	9,925
Reimbursements	-	13,861	19,498	33,359
Renovation	115,016	244,180	128,888	488,084
Repayment of Loan	-	14,027	20,355	34,382
Salary to Workers	1,107	39,768	78,025	118,900
Security	-	-	1,899	1,899
Special Events	9,350	10,684	1,615	21,649
Sponsorship	1,600	500	1,430	3,530
Subscriptions	-	-	50	50
Supplies	251	9,363	7,660	17,274
Tickets	-	-	200	200
Unknown	-	390	100	490
Utilities	721	7,035	10,311	18,067
Vehicle	8,117	1,585	1,386	11,088
Water	-	174	456	630
Total Expenditures	\$ 140,849	\$ 364,371	\$ 313,119	\$ 818,339
Excess Revenue Over/(Under) Expenditures	\$ 214,247	\$ (72,859)	\$ 193,778	\$ 335,166

1 Expenditure activity is reflected only for the period January 10, 2009 through May 31, 2011.

National Philippine Cultural Foundation, Inc.

7500 Livingston Road
Oxon Hill, MD 20745
(301) 567-2280

"PROMOTING THE ARTS AND PRESERVING THE CULTURE"

October 22, 2014

Mr. David Van Dyke, CPA
County Auditor
Office of Investigation and Audit
14741 Gov. Oden Bowie Drive
Upper Marlboro, MD 20772

Dear Mr. Van Dyke,

We welcome the draft of your audit report and thank you for its "substantial findings." We acknowledge, recognize, and learned from our mistakes/shortcomings and pledge to pay meticulous attention to the highest ethical or professional standards.

The dynamics of running a non-profit as opposed to a for-profit corporation vary greatly. From day one our greatest enemy was inexperience in running a non-profit organization and our greatest friend and strongest supporter was good faith.

A careful reading of your report appears to indicate the following bottomline:

We need a sound accounting and internal control system in place if we were to successfully run the Center;

A clear organization hierarchy should be in place and job functions and descriptions should be drawn up for every officer/staff/employee;

Given this background we hope to train new and incoming personnel and managers to install and manage the right accounting software. A software that can track hours worked, expenses incurred, reimbursements for expenses, invoices, etc. It can reconcile accounts each month, provide financial statements (monthly or annually); and introduce them to general accounting principles and procedures;

There should be an established limit for petty cash fund allowed for the designated officer; establish checks and balances for petty cash and all check issuances, disbursements by requiring two signatories;

No services/construction/work maybe be allowed without an approved contract signed by the designated Officer of NPCF;

Monthly bank reconciliation statements should be done against expenses/income received every month;

A yearly budget should be made and followed accordingly. Balance sheet, Income Statement Cash disbursements, and financial statements should be ready at the start of calendar year approved by the Board of Directors before implementation.

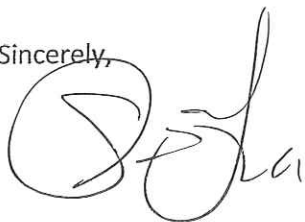
We are developing a handbook incorporating the above provisions along with other guidelines necessary to get the Center moving forward.

In view of the foregoing, we are initiating a total overhaul of the corporate structure of NPCF as we engage a new set of administrators who are computer-software savvy.

We are proud of what we have achieved. We have converted a rat-mold-asbestos-infested former police station and surplus property into a crown jewel of Philippine-American relations. No less than Gen. Fidel V. Ramos, until recently President of the Philippines was feted at the Center on the occasion of the Philippine Independence day celebration in the Nation's Capital.

We look forward to sitting down with you to discuss your audit report. Thank you very much.

Sincerely,

A handwritten signature in black ink, appearing to be 'Roland Lee', written over the word 'Sincerely,'.

ROLAND LEE
Member Board of Directors
Legal Counsel

cc: Ms. Natalie Beckwith