

FAMILY RESTORATION AND HEALING CENTER, INC.

**GRANT AUDIT
September 2021**

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



THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

September 2021

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 Approved Annual Current Expense Budget.

We have examined the books and records of

FAMILY RESTORATION AND HEALING CENTER, INC.,

for the period July 1, 2018, through June 30, 2020. Our examination included such tests of the accounting records and such other auditing procedures, as we considered necessary under the circumstances.

We noted no matters involving the Prince George's County grant to Family Restoration and Healing Center, Inc., that led us to believe that the County grant funds were used for other than their intended purpose. However, we did note deficiencies in certain areas and have made recommendations for improvements in the report.

This report, in our opinion, 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 Year 2019 and 2020 Approved Operating Budgets.

A blue ink signature of David H. Van Dyke.

David H. Van Dyke, CPA
County Auditor

A blue ink signature of Larry Whitehurst Jr.

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

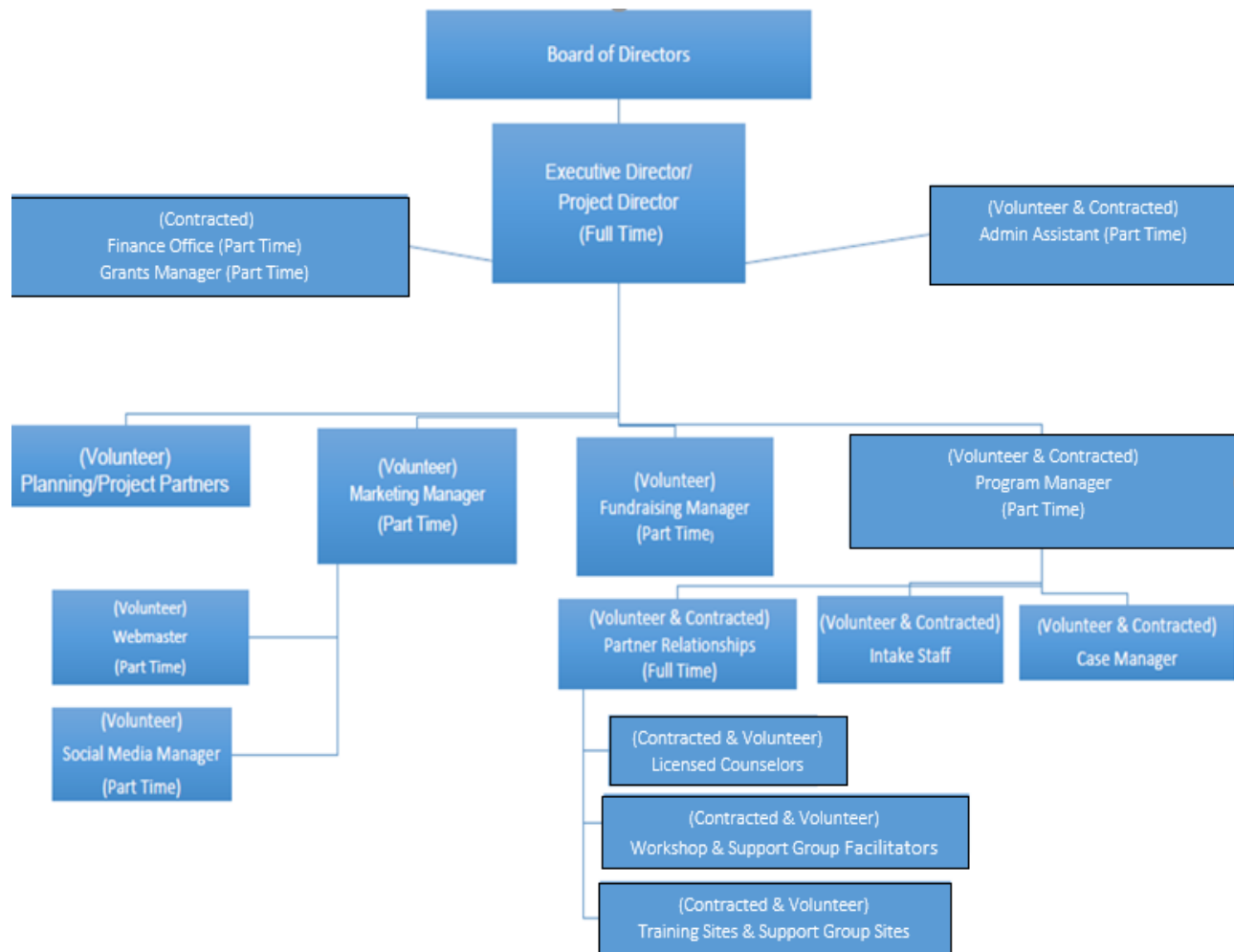
Family Restoration and Healing Center, Inc.

Family Restoration and Healing Center, Inc. (“FRHC”) is incorporated as a 501(c)(3) nonprofit organization that was founded in 2011. FRHC provides education, training, case management, counseling and supportive services to individuals and families within Prince George’s County, Maryland. FRHC’s office is located at 10100 Ellard Drive, Lanham, Maryland. FRHC’s mission is to restore families’ minds, bodies and spirits through education, counseling, case management and supportive services. The organization achieves this mission by providing low income families the life skills and training needed to achieve health wellness, which would ultimately lead to youth and family success. Initially, FRHC started out providing workshops on caregiving, stress, and anger, but has grown to provide parenting and youth development workshops, workforce and positive youth development training, as well as case management and counseling services. FRHC leverages partnerships with Community Crisis Services (“CCS”), Safe Harbor Behavioral Care, Solid Rock Church and Vision Impact Center, to provide a “360 Wholeness Program”, which focuses on positive youth development and creating success for youth at home, work, and in relationships. CCS staff provide domestic violence prevention training to the network of staff and volunteers that support the program along with being incorporated into delivering programming directly to participants. The “360 Wholeness Program” curriculum is offered as an after-school program for elementary, middle and high school students at William Wirt Middle School and Parkdale High School, and as a summer camp program at Solid Rock Church located in Riverdale, Maryland. The “360 Wholeness Program” is comprised of the following core programs:

- **360 Youth Achievers**- a learning intensive, after-school program that serves 120 middle and high school students in community centers and churches. The program provides life skills, job readiness, and parent-child communication skills training to students from 4:00pm-7:00pm on weekdays, and 10:30am-1:00pm on Saturdays.
- **iSucceed Training Programs**- aims to continue the training of success sequencing for poverty prevention. After completing the 360 Youth Achievers Program, older teens are referred for further training in life skills, job readiness, and career success.
- **Individual and Group Counseling**- In relationship with Safe Harbor Behavioral Care and other partnerships, this program creates a network of 150 licensed counselors, nineteen (19) of which are located within Prince George’s County. The counselors, together with over ten (10) volunteers from faith-based communities, are based in fifteen (15) communities within Prince George’s County. The counselors have access to provide video counseling with up to twelve (12) referrals per month with anyone in the network, regardless of location.

Between July 1, 2018, through September 1, 2019, FRHC reports their programs have served 2,632 individuals within Prince George’s County.

In the beginning of CY 2020, FRHC was governed by a seven (7) member Board of Directors who served without compensation. An overview of FRHC’s organizational chart for FY 2020 is shown on the following page.



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 Prince George's County Government awarded Family Restoration and Healing Center, Inc. six (6) grants totaling \$51,500 in fiscal years 2019 and 2020. These awards were issued from October of 2018 through November of 2019. A summary of the grants awarded is as follows:

Disbursement Date	Grant Type	Grant Award Amount
12/31/2018-FY 2019	Non-Departmental	\$ 20,000
2/5/2019-FY 2019	Special Appropriation	2,000

5/31/2019-FY 2019	Special Appropriation	1,000
12/31/2019-FY 2020	Non-Departmental	25,000
1/16/2020-FY 2020	Special Appropriation	2,000
1/27/2020-FY 2020	Special Appropriation	1,500
Total Amount Awarded		<u>\$ 51,500</u>

This grant funding was awarded to Family Restoration and Healing Center, Inc. primarily for education and supportive services that support job readiness, mental health and positive youth development and to expand services within their core “360 Wholeness Program”.

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 organization’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.

The scope included all transactions related to the receipt and disbursement of the total grant funds received from July 2018 through June 2020 (a total of \$51,500).

The criteria used to evaluate the audit evidence gathered included:

- The grant applications submitted by Family Restoration and Healing Center, Inc.;
- The organization’s accounting policy and procedure manual;
- 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 correspondence with key personnel of Family Restoration and Healing Center, Inc. and detailed tests including:

- An examination of the organization’s monthly bank statements and reconciliations;
- A review of the organization’s Federal tax filings;
- A review of available grant receipts and expenditures documentation and;
- A review of available minutes for meetings held by the Board of Directors.

We examined the books and records maintained by Family Restoration and Healing Center, Inc. and included tests of the accounting records and other auditing procedures, as we determined necessary. Our examination included a review of expenditures and supporting documentation to ensure that payment amounts were properly approved and corresponded to related invoices. **We noted no instances that led us to believe that County grant funds were used for other than**

their intended purpose. However, we did note some areas where improvements are needed, and they are noted in the following findings:

FINDINGS, COMMENTS AND RECOMMENDATIONS

Failure to adequately document review/approval of financial activities

FRHC is a small organization made up of mostly contractual and volunteer individuals, and as a result most of its day-to-day operational and financial decisions are made by the Executive Director, with assistance from a part-time contractual fiscal officer/bookkeeper. With this structure in place, it is imperative that the organization have an active Board of Directors to ensure that organizational and financial decisions are made with adequate oversight and approval. During the audit, a sample of transactions was selected for a review of invoices/receipts and approval documentation to support each transaction. The organization was able to provide invoices and receipts for the transactions, and the Executive Director did communicate that she conducted a review and approval of expenses. However, the organization was unable to provide documentation to support the approval of these transactions. Given the structure in place within the organization where the Executive Director is primarily responsible for the execution of financial transactions, the Board of Directors should play an oversight role, which would include a review and approval of these transactions.

According to documentation provided by the organization for CY 2018 and CY 2019, the Chair of the Board was the Executive Director's spouse, and he remained in this position until CY 2020, after which he became a non-titled board member. A review of Board meeting minutes did reveal that financial information was communicated to the Board of Directors, however, due to the vagueness of Board meeting notes, it wasn't apparent if there was a subsequent review and approval by the Board of Directors of specific financial transactions that were initiated by the Executive Director. It should be noted that, according to FRHC's policies and procedures manual, the duties of the Board Chair is to "review all vouchers and invoices for those checks which require his or her signature" and "review and approve all financial reports." If this were the case, then it would present a situation where a spouse could be approving another spouse's financial transactions and activities, creating a conflict of interest.

Additionally, during the course of bank statement testing, A&I reviewed a total of forty-eight (48) monthly bank reconciliations within the audit period, for both the operating and payroll accounts. Although FRHC did produce bank reconciliations for all months, forty-three (43) were not completed in a timely manner and none of the reconciliations were initialed and dated by the Executive Director as required by FRHC policies and procedures. The specifics of these reconciliations are as follows:

- July 2018 through December 2018 operating account reconciliations were not completed until October 16, 2019;
- July 2018 through December 2018 payroll account reconciliations were not completed until January 24, 2019;
- April 2019 through December 2019 operating, and March 2019 through December 2019 payroll account reconciliations were not completed until January 18, 2020.

According to the Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector, the Maryland Association of Nonprofit Organizations dba Standards of Excellence Institute states the following:

Finance and Operations, Section A.2 “The organization should periodically assess the organization’s financial performance in relation to the budget. A nonprofit should create and maintain reports on a timely basis that accurately reflect the financial activity of the organization.”

Leadership: Board, Staff and Volunteers: Guiding Principle “...An effective nonprofit board should determine the mission of the organization, 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...Nonprofits should also have executive leadership which carries out the day-to-day operations of the organization, ensures financial and organizational sustainability, and provides adequate information to the board of directors.”

Leadership: Board, Staff and Volunteers, Section A.5 Board Member Independence “...The board should have no fewer than five (5) independent and unrelated directors...”

Maryland Nonprofits Board Excellence Governance Handbook, The Board’s Role in Legal and Ethical Oversight, Conflicts of Interest states:

“Just as an individual nonprofit board member is responsible to avoid conflicts of interest, it is the responsibility of the full board to adopt a conflict of interest policy and ensure that it is followed...Through a conflict of interest policy, the board must take a deliberate effort to identify, mitigate, and resolve conflicting interests, a conflicts policy will make it less likely that board or staff members will intentionally or inadvertently violate their responsibilities...”

Additionally, FRHC's Accounting Policies and Procedures Manual states:

“Proper Documentation for all Purchases, including Company Credit Card Purchases:

Every instance of credit card or other purchase use must be documented with travel authorizations, receipts, individuals paid for, nature of business, etc. before the expense will be considered authorized and will be approved for reimbursement.”

Cash Disbursements Procedures states, *“Incoming invoices will be logged in by the Executive Director or designee (naming the staff person responsible for ordering the product or service) and delivered to the responsible staff person for his/her approval and to prepare a check request voucher prior to disbursement dates...A check request voucher should then be completed by the purchasing staff person and attached to the original vendor invoice, and/or any other supporting documentation. The voucher should*

include the account codes to which the expense will be applied. Approval for an expense by the Executive Director must be indicated on the check request voucher.”

“To Prompt a Purchase: A check request should be completed and forwarded with any order form or other documentation to the Executive Director for approval to prompt purchases. If the check is made out to the Executive Director, that individual cannot approve the check request voucher.”

“All accounts will be reconciled no later than 7 days after receipt of the monthly bank statements. In the event it is not possible to reconcile the bank statements in this period of time, the Executive Director should be notified by a written memo from the Fiscal Officer.”

“Completed bank reconciliations should be reviewed by the Executive Director and initialed and dated by the reviewer.”

The organization did not adhere to its written policies and procedures as it relates to maintaining adequate approval documentation and the timely preparation and review of financial documents such as bank reconciliations.

As a result, a delay in identifying any possible banking or recording errors could have an effect on the financial statements. Furthermore, the failure to maintain documentation to substantiate adequate approval and review of financial transactions could open the possibility for the misappropriation of funds especially given the current structure of the organization.

We recommend the following:

- 1) FRHC follow their written policies and procedures pertaining to the timely completion and documented review of all financial related activities to include bank reconciliations and expense transactions.
- 2) Furthermore, given the operational structure of FRHC, we recommend that its Board of Directors take a more active role in the documented review and approval of specific financial transactions that are initiated by the Executive Director.
- 3) FRHC adopt a conflict of interest policy and ensure that the policy addresses the Board of Directors responsibilities as they relate to business, spousal or family relationships with any individual in an upper management position within the organization.

In-Kind Labor Transactions entered in violation of IRS Regulations

A review of expenditure transactions during testing revealed a journal entry in which in-kind labor was entered into the accounting system. This entry represented the value of labor that was donated on the behalf of the Executive Director and various consultants that the organization utilized in CY 2018. As a result of these donated labor amounts, the organization provided each individual with tax deductible charitable contribution letters. From an accounting standpoint, the organization entered the donated in-kind labor amount as revenue and an expenditure in the

donation year. According to IRS regulations, the value of time or services can't be deducted as a charitable contribution by the donor and based upon this regulation these amounts shouldn't have had an accounting consequence. The organization was asked to provide a report of similar transactions that were realized throughout the audit period. The results of this inquiry along with the initial revelation reveal the following:

CY	Total Individuals/ Organizations	Total In-Kind Labor Entered
2018	6	\$60,000
2019	3	\$56,850

The *Internal Revenue Service (IRS) Publication 526, Charitable Contribution: Value of Time or Services* states, "You can't deduct the value of your time or services, including: blood donations to the American Red Cross or to blood banks, and the value of income lost while you work as an unpaid volunteer for a qualified organization."

Based upon fieldwork conversations/interactions, we believe the organization lacked the expertise and knowledge with respect to the lack of deductibility of donated in-kind labor.

Entering these in-kind labor transactions into the organization's accounting system resulted in the production of financial statements with an inaccurate account of funding received and expenditures actually paid by the organization. Furthermore, these individuals were provided with tax deductible charitable contribution letters for amounts that weren't actually paid to the organization which violated IRS regulations.

We recommend:

- 4) The FRHC educate themselves on the proper treatment of charitable contributions and discontinue accounting for in-kind transactions in violation of IRS regulations.

Family Restoration and Healing Center, 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 Revenues and Expenditures, will be presented on a calendar year consistent with Family Restoration and Healing Center, Inc. operations. The Statement of Revenues and Expenditures shows the activities of the organization for the periods ending December 31, 2018, December 31, 2019, and June 30, 2020.

FAMILY RESTORATION AND HEALING CENTER, INC.
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE PERIODS ENDING
DECEMBER 31, 2018, DECEMBER 31, 2019 AND JUNE 30, 2020
(ACCRUAL BASIS-UNAUDITED)

	<u>2018</u>	<u>2019</u>	<u>*2020</u>
REVENUES:			
Corporation	\$10,000	\$5,000	-
Event	3,321	50	-
County Grants**	36,500	28,000	3,500
State of Maryland Funding	-	22,500	7,929
In-Kind Labor	60,000	56,850	-
Individual Donations	3,846	4,734	3,065
Misc. Income	1,799	7,075	550
Total Revenues	<u>\$115,466</u>	<u>\$124,209</u>	<u>\$15,044</u>
EXPENDITURES:			
Advertising/Marketing	\$1,089	\$1,543	\$406
Bank Charges and Fees	69	476	727
Consultant	23,205	16,600	2,500
Dues and Subscriptions	283	2,670	100
Insurance/Insurance-Liability	3,270	3,519	-
Meals and Entertainment	325	380	325
Office Expenses	50	408	-
Other General and Administrative Expenses	57	249	-
PayPal Fees	820	748	401
Payroll Taxes	6,151	2,076	1,192
In-Kind Labor	60,000	56,850	-
Taxes & Licenses	-	3,780	200
Wages	39,061	24,244	12,694
Professional Fees-Accounting	12,475	17,495	3,000
Program Costs	4,559	5,773	-
Shipping and Delivery Expense	76	37	13
Stationary and Printing	664	310	293
Supplies	1,726	1,140	850
Training and Development	1,135	905	-
Travel	250	185	-
Workers Compensation	777	1,049	-
Total Expenditures	<u>\$156,040</u>	<u>\$140,435</u>	<u>\$22,701</u>
Excess Revenue Over/(Under) Expenditures	<u>(\$40,574)</u>	<u>(\$16,226)</u>	<u>(\$7,657)</u>

*Limited to revenues and expeditures for the period January 1, 2020 through June 30, 2020

**Includes FY2018 County Grant funding of \$16,500 awarded in CY2018