

MINORITY ACCESS, 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 (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

MINORITY ACCESS, INC.,

for the period July 1, 2017, through June 30, 2019. Our examination included such tests of the accounting records and such other auditing procedures, as we considered necessary under the circumstances.

We noted deficiencies in internal controls involving the Prince George's County grant to Minority Access, Inc., that led us to question whether the County grant funds were used for its intended purpose. Based on the extent of findings outlined in this report, we recommend that the County discontinue awarding Minority Access, Inc. additional grant funding at this time.

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 2018 and 2019 Approved Operating Budget.

A handwritten signature in blue ink, reading "D.H. Van Dyke".

David H. Van Dyke, CPA
County Auditor

A handwritten signature in black ink, reading "Jisun Ahn".

Jisun Ahn
Auditor-In-Charge

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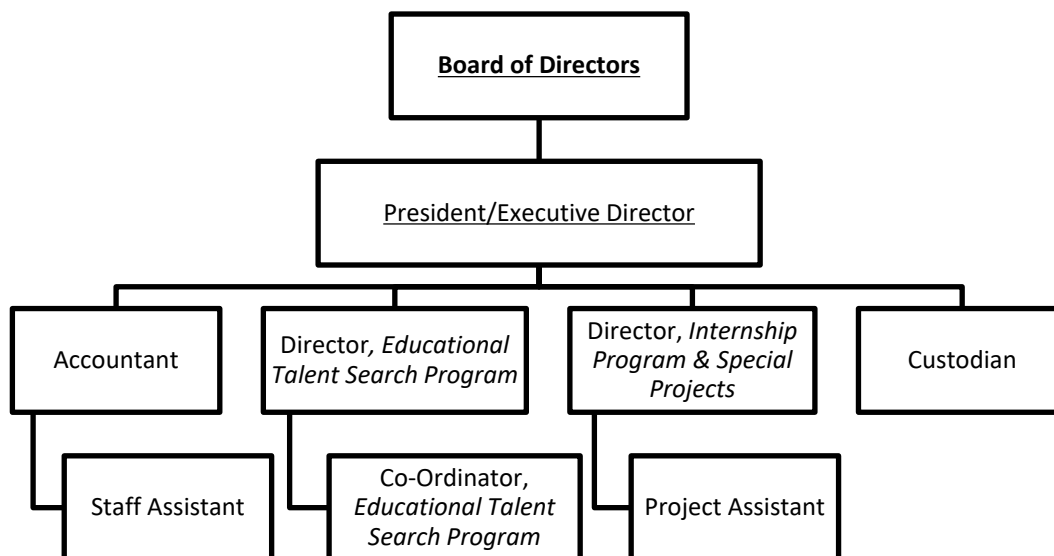
Minority Access, Inc.

Minority Access, Inc. (“MAI”), a 501(c)(3), originally incorporated in the District of Columbia in 1987 as NAFEO Services, Inc. (“NSI”). MAI later incorporated in Maryland in 1995 to assist individuals, academic institutions, federal and local governments, private agencies and corporations in diversifying their campuses and work sites by improving the recruitment, retention and enhancement of underserved populations. MAI, located in Hyattsville, Maryland, reported that its goal is to improve the higher educational, professional and managerial utilization of minorities.

MAI reported they offer the following programs:

- National Diversity Inclusion Internship Program – Provides students from institutions of higher education with work experience in the public and private sector.
- Minority Access National Internship Program – Provides students from institutions of higher education with opportunities in government agencies, business entities and private organizations.
- Educational Talent Search Program – Federally funded TRIO program that assists Prince George’s County Public School System middle and high school students who wish to pursue a college education but feel they are facing financial and other challenges.
- National Role Models Conference – Annual conference that publicizes and honors inspiring alumni, faculty, and students of minority population groups as well as their supporters of any race; recognizes colleges and universities committed to diversity; and supports the development of student researchers through training sessions and providing cash awards.

MAI is governed by a volunteer Board of Directors who serve without compensation. The Board oversees the operational affairs of MAI and has the authority to establish and execute policies to ensure the effective governance and management of the organization. An overview of MAI’s organizational structure is shown below in Figure 1.



(Figure 1)

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 non-profit 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 non-profit 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 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 Office of the County Executive, awarded MAI five (5) grants totaling \$65,000 in fiscal years 2018 and 2019. A summary of the grants awarded is as follows:

<u>Disbursement Date</u>	<u>Grant Type</u>	<u>Grant Award Amount</u>
10/27/2017	Non-Departmental	\$15,000
07/03/2018	Special Appropriations	\$15,000
07/19/2018	Community Partnership	\$10,000
12/13/2018	Special Appropriations	\$5,000
04/04/2019	Non-Departmental	\$20,000
Total Amount Awarded		<u>\$65,000</u>

(Exhibit 1)

These grants were awarded to MAI to offer mentoring, STEM workshops, academic services and a one-time health and wellness programs for middle and high school students in the Prince George's County Public School System.

Although MAI operates and reports on a calendar year, our examination was conducted on a fiscal year basis. For report purposes, the attached Statement of Revenues and Expenditures, **Schedule 1**, prepared by A&I shows the activities of the organization for the periods ending December 31, 2017, December 31, 2018, and June 30, 2019.

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 MAI'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 2017 through June 2019 (a total of \$65,000).

The criteria used to evaluate the audit evidence gathered included:

- The grant applications submitted by Minority Access, 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 MAI and detailed tests including:

- An examination of the organization's monthly bank statements;
- A review of the organization's Federal Form 990 returns for 2017 and 2018;
- A review of available cash receipts and disbursements documentation; and
- A review of available minutes for meetings held by the Board of Directors.

A&I examined the books and records maintained by MAI 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.

Although some documentation was provided by MAI, A&I did not receive sufficient documentation to support MAI's revenue and expenditures, to obtain reasonable assurance that the County grant funds awarded to the organization were properly supported and used for 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.

Finding 1: Lack of Board Oversight

Based on interviews with key personnel and a review of minutes for two (2) annual board meetings, A&I noted the following areas of concern.

- The organization lacked an active and involved Board of Directors. The Board of Directors did not exercise its full authority over the organization and maintained little to no oversight of MAI. We noted that Board Meetings were held once a year and Board members did not review financial information for the organization (i.e. financial reports, grant applications, budget variance reports, etc.) on a regular basis (at least quarterly).
- Board meetings lacked a quorum and were not appropriately documented through approved minutes.
- The President/Executive Director was a voting member of the Board, had substantial influence as a member of the Board of MAI, and had the ultimate authority for implementing decisions of the governing body and managing the finances of the organization. The President/Executive Director was primarily responsible for making decisions for MAI and made major decisions regarding the use of funds and the future operations of MAI.

The MAI Bylaws, Article 2, Section 8, states, "except as may be otherwise specifically provided by law or the Articles of Incorporation, at all meetings of the Board of Directors, a majority of the number of directors fixed by these Bylaws shall constitute a quorum..."

Additionally, according to the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector* ("Standards for Excellence"), boards should meet at a minimum four (4) times a year, and accurate minutes reflecting board and committee actions should be kept and distributed to all board and committee members. An effective nonprofit board should actively monitor the organization's allocation of resources to effectively and efficiently fulfill its mission. Furthermore, committees with decision-making authority should report any committee actions or decisions to the full board and those decisions must be reflected in the board minutes.

Additionally, the *Standards for Excellence* state that "when an employee of the organization is a voting member of the board, the board is responsible for ensuring that the employee will not be in a position to exercise undue influence."

Finding 2: Outdated Governing Documents

As previously stated, MAI was originally organized as NSI. A&I requested MAI's governing documents, articles of incorporation and bylaws, and was provided organizing documents for the original organization, NAFEO Services, Inc. (NSI). MAI reported that the organization operates using NSI organizing documents.

Governing documents, such as articles of incorporation and bylaws, are legal documents that dictate how an organization must be governed. Although an organization operating under outdated governing documents is not illegal, ideally, governing documents should be reviewed on a regular basis and amended whenever there are significant changes in an organization's mission and/or operations.

According to the *Standards for Excellence* “the board should establish and periodically review the bylaws and policies to ensure the effective governance and management of the organization.”

Finding 3: Lack of Independent Financial Statement Audit

During the audit, A&I requested a copy of MAI's most recent financial statement audit. MAI reported that its most recent financial audit was conducted in 2007. We noted that MAI reported total revenue of \$909,944 in CY 2017 and \$790,305 in CY 2018.

Although MAI may not be required by federal or state government to have an independent audit or review of its financial statements, the Prince George's County Council does require organizations with revenue (from all sources) of \$300,000 or more to provide the County with audited financial statements. Furthermore, regular independent audits are a good business practice as it demonstrates that the “nonprofit is committed to financial transparency and accountability” and helps the Board of Directors, grantors, and citizens of the County have more confidence in the organization's finances¹.

Finding 4: Lack of Segregation of Duties

During the audit period, A&I noted that there was no segregation of duties in the organization related to the handling of cash receipts and disbursements. The President/Executive Director was the sole individual responsible for authorizing transactions and signing all checks, regardless of the amount of the transactions.

A&I also noted that MAI's *Financial Management Manual* required only one (1) signature, an approval sheet, and supporting documentation for the disbursement of funds.

According to the Maryland Nonprofits Standards of Excellence nonprofits should have a conflict of interest policy that identifies ‘the types of conduct or transactions that raise conflict of interest concerns, ... set[s] forth procedures for disclosure of actual or potential conflicts, andprovide[s] for review of individual transactions by the uninvolved members of the board of directors.’

Additionally, the U.S. Government Accountability Office (GAO) states that management should consider “segregation of duties in designing control activity responsibilities so that incompatible duties are segregated” and where such segregation is not practical within an operational process because of limited personnel or other factors, management should design “alternative control

¹ National Council of Nonprofits – Nonprofit Audit Guide: <https://www.councilofnonprofits.org/nonprofit-audit-guide>

activities” to address the risk of fraud, waste, or abuse. It should be noted that the inadequate oversight of key activities can lead to an increased risk of fraud, waste, or abuse.

Ideally, the organization’s financial duties and other areas that deal with sensitive or valuable data should be distributed among multiple people to help protect the organization from errors, fraud, and waste of fiscal resources. For smaller organizations that may not have enough personnel for a proper separation of duties, someone independent of these functions should review/reconcile posted transactions regularly, adding to the system of checks and balances.

Finding 5: Failure to Maintain Adequate Documentation to Support Grant Expenditures

During the audit period, A&I noted that MAI generally lacked adequate documentation and could not provide evidence that expenditures complied with MAI’s financial policies and procedures. Also, MAI did not effectively use their accounting system or have consistent accounting practices in place.

The FY 2018 and FY 2019 grants from the County Council, totaling \$55,000, were to be used to provide mentoring, STEM workshops, seminars and academic services to middle and high school students in the Prince George’s County Public School System.

The FY 2018 grant from the Office of the County Executive, totaling \$10,000, was to be used to provide a health and wellness program in partnership with Beyond Excellence. The program, to be held in the summer of 2018, would select 25 middle school students and their parents in Hyattsville, Greenbelt, Riverdale, and/or New Carrollton communities. A&I did not conduct testing of this grant due to the County Executive granting an extension to MAI to execute the program the summer of 2019. As a result of the extension, this program fell outside the scope of this audit.

Many of the expenses incurred related to the County grant funds did not have sufficient supporting documentation. Therefore, A&I was not able to determine how the County grant funds were spent and whether services were provided to County students per the grant agreements. According to MAI’s *Financial Management Manual*, Section 3, Accounting Policies and Procedures, “Each funding source is individually identified, and individual expenses are coded in a manner to ensure that the expense is charged to the correct funding source.”

As previously stated, A&I had to conduct alternative audit procedures due to the lack of a complete accounting system. We sampled 24 transactions, totaling \$19,505, and found the following:

- Five (5) transactions, or 21%, did not align with MAI’s mission, including payments for a Wyndham timeshare listed in the name of the organization;
- Twenty-one (21) transactions, or 88%, were not adequately approved as required by MAI’s policies and procedures;
- Seven (7) transactions, or 29%, were not accurately categorized or recorded in the accounting system; and

- Twenty (20) transactions, or 83%, lacked adequate documentation to support the expenditure.

MAI's *Financial Management Manual*, Section 6, Cash Disbursements Procedures states, "The President and Chairman are authorized to sign checks. Only one signature will be required on checks. Anyone signing a check must review and initial the supporting invoice. Individuals may not sign a check payable to themselves." Additionally, MAI's *Financial Management Manual*, Section 13, C. states, "The same person cannot write a procurement/purchase order and sign a check."

According to the Internal Revenue Service (IRS), documents to support expenses include, but are not limited to canceled checks or other documents reflecting proof of payment/electronic funds transferred, cash register tape receipts, account statements, credit card receipts and statements, and invoices. The IRS further states that a combination of supporting documents may be needed to substantiate all elements of an expense.

The Internal Revenue Service ([IRS Publication 4221-PC \(Rev. 3-2018\)](#)) also states that a public charity must keep records for federal tax purposes for as long as they may be needed to document evidence of compliance with provisions of the Internal Revenue Code (IRC). Generally, this means the organization must keep records that support an item of income or deduction on a return for a minimum of three (3) years from the date the return is due or filed, whichever is later. Good business practices also recommend retention of pertinent documentation for at least three (3) years.

Finding 6: Inconsistent Financial Reports

Generally, an 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. MAI reported that its Treasurer was responsible for performing bookkeeping duties and compiling the annual Federal Income Tax Form 990.

During the audit, we requested various financial documents for examination. After multiple requests, MAI did provide financial reports, however, A&I was unable to cross-reference or verify the information on the financials to the supporting documents provided during the review. Additionally, A&I was unable to determine whether the financial reports provided for CY 2017 and CY 2018 were generated from MAI's accounting system. MAI had reported to A&I that the accounting system maintained 20 years of MAI's finances.

A&I also reviewed the Federal Form 990 for the years 2017 and 2018 and compared the Form 990s to the bank statements and invoices that were provided by MAI. A&I was unable to cross-reference or verify the information on the Form 990s to the supporting documents provided. Given the missing information identified by A&I during the audit (see finding on page 9), we were unable to verify the accuracy of the Form 990s and the financial reports provided by MAI.

The *Standards for Excellence* states that nonprofits should create and maintain reports on a timely basis that accurately reflect the financial activity of the organization. These reports

should be prepared at least quarterly, be provided to the Board of Directors, and should identify and explain any material variation between actual and budgeted revenues and expenses.

Inadequate controls over accounting operations increases the risk of fraud, waste and/or abuse. Additionally, inadequate accounting operations reduces the reliability of the financial statements which management utilizes to make decisions.

Finding 7: Lack of and/or Inaccurate Reconciliations

During the review of MAI's bank statements and limited financial documents, A&I identified eight (8) accounts with different financial institutions that were maintained by the organization in FY 2018 and FY 2019. MAI was unable to provide sufficient documentation to demonstrate the organization performed accurate bank reconciliations.

A&I requested reconciliations for MAI's financial accounts operated during the audit period and was provided incomplete reconciliations for three (3) out of the eight (8) financial accounts. After additional inquiries were made by A&I, MAI provided reconciliations for three (3) additional financial accounts.

A&I noted that the Accountant manually (using Excel) performed the provided reconciliations, however we were not able to determine who prepared the reconciliations, when they were performed, and if they had been reviewed and approved, as documented by initialing and/or signing the completed reconciliation.

A&I had to conduct alternative audit procedures due to lack of a complete accounting system. During our testing, A&I noted that 24 out of the 298 (8%) of the checks written during the audit period were not recorded in the check register. Additionally, copies of the 24 checks, totaling \$18,985, were not provided to A&I for review.

MAI's *Financial Management Manual*, Section 9(A), states "the Accountant prepares the monthly bank reconciliation...reconcile the bank balance to the general ledger balance." The Accountant reported that reconciliations were performed on a quarterly basis for accounts that had minimal transactions.

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 accuracy and transparency of financial and operational reports, and safeguards to protect the integrity of the reporting systems.

Bank reconciliations are an important process designed to uncover any old outstanding checks or deposits that need to be researched. It's also a crucial tool to help monitor the organization's cash flow, as the accounting records are likely up to date if monthly reconciliations are performed, and reconciling differences are resolved in a timely manner. Ongoing monitoring during operations, which includes supervisory review of reconciliations and other financial documents,

is also important to assess the quality of financial information provided to Management, the Board, and other stakeholders.

RECOMMENDATIONS

Based upon the extent of the findings outlined in this report, **we recommend that the County discontinue awarding Minority Access, Inc. grant funding at this time.** The Prince George's County Council may require a total or partial refund of any grant funds when an organization is not in compliance with the terms and conditions of the grant award. If grant funds are to be awarded to MAI in the future, the following recommendations should be implemented:

1. Minority Access, Inc. **should ensure that any County Grant funds that have not yet been expended or any future grant funds received from the County are used solely as designated in the grant application for the benefit of Prince George's County citizens.**
2. Minority Access, Inc. **should evaluate and strengthen its Board of Directors** to ensure the Board can provide the appropriate oversight of the organization.
 - a. An effective non-profit board should determine the mission of the organization, establish management policies and procedures, and actively monitor the organization's allocation of resources to effectively and efficiently fulfill its mission. The Board should annually approve the organization's budget and the organization should be operated in accordance with this budget.
 - b. Determine the appropriate people to sit on the board including those who have some expertise and experience working with the target population and those who have been involved in the community.
 - c. Based on the criteria established above, identify gaps that need to be filled so that the Board can more effectively realize its mission.
 - d. The Board should review, update (if necessary), and approve the organization's bylaws every 3-5 years, which are the rules of governance of the organization.
 - e. The Board should meet regularly, document all Board meetings in the form of minutes, and ensure a quorum of voting members is present when making major decisions for the organization. The minutes stand as the official record of the Board's actions and should be approved by the Board in a timely manner.
 - f. The *Standards for Excellence* states that when an employee of the organization is a voting member of the board, the board is responsible for ensuring that the employee will not be in a position to exercise undue influence.
3. Minority Access, Inc. **should consider having a financial statement audit performed by an independent Certified Public Accountant in good standing.** The Board should hire the auditor, approve the audited financial statements, and receive a copy of the management letter (if any). Additionally, the Board should monitor the implementation of any audit recommendations made.

4. Minority Access, Inc. should take the necessary steps **to ensure that a sound accounting and internal control system is in place** to properly account for any future funding that it may receive. A strong internal control system includes:
 - a. Segregating key financial duties including authorization, custody, record keeping and reconciliation. It is ideal to arrange the work load so that no one person handles more than one type of function.
 - b. Maintaining appropriate documentation to support revenue and expenditure transactions, including but not limited to bank statements, check copies, check registers, signed memoranda of understanding (MOUs), signed employment agreements, signed contract agreements, receipts for travel and entertainment expenses, detailed information regarding individual and corporate donor payments and other funds received. Documentation should be maintained for a period of at least three years after the tax return is filed, in accordance with IRS guidelines.
 - c. Financial Reporting – Minority Access, Inc. 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.
 - d. Policies and Procedures - Minority Access, Inc. should follow the requirements of the organization's *Financial Management Manual* which details the financial policies and procedures for the organization. This includes the policies and procedures as it relates to the coding of individual expenses to ensure it is charged to the correct funding source and the reconciliation of bank statements to the general ledger.

MINORITY ACCESS, INC
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE PERIODS ENDING
DECEMBER 31, 2017 AND DECEMBER 31, 2018
(ACCRUAL BASIS)
UNAUDITED

	<u>CY 2017</u>	<u>CY2018</u>	<u>CY2019*</u>
REVENUES:			
Government Grants - Federal	\$ 662,144	\$ 510,558	\$ 31,412
Prince George's County Grants	15,000	30,000	20,000
Program Income	123,048	165,293	21,970
Contribution	57,999	55,435	1,277
Other Income	51,753	29,019	5
Total Revenues	\$ 909,944	\$ 790,305	\$ 74,664
EXPENDITURES:			
Compensation - Other	\$ 269,519	\$ 225,427	\$ 976
Compensation - President	94,686	94,686	33,235
Staff Administrative Assistance	-	27,001	-
Fringe Benefits	73,756	65,218	7,690
Payroll Taxes	28,443	24,489	2,593
Consultant Fee	109,938	82,099	5,975
Housing - Interns	32,605	1,000	500
Utilities	19,734	20,934	1,576
Repairs & Maintenance	26,575	23,284	23
Professional Fees	13,032	98,058	10,634
Office Supplies	4,200	3,190	698
Computer Services	8,936	10,059	(165)
Program Travel	19,000	4,444	1,280
Conferences, Conventions, Meetings	114,283	121,969	553
Finance Charges	13,195	13,800	2,323
Depreciation, Depletion, and Amortization	75,819	75,819	-
Insurance	8,103	10,274	-
Student Educational Development	1,881	-	-
Membership Fees	1,460	2,883	-
Recruiting, Orientation & Training	1,826	2,399	-
Equipment Lease	7,509	10,355	-
Cleaning & Maintenance	10,564	5,182	-
Telephone	4,495	4,159	-
Security	711	1,016	-
Postage & Delivery	2,092	1,184	-
Duplicating & Printing	10,865	9,049	-
Property Tax	336	-	-
Miscellaneous	5,142	2,490	2,087
Total Expenditures	\$ 958,705	\$ 940,468	\$ 69,975
Excess Revenue Over/(Under) Expenditures	\$ (48,761)	\$ (150,163)	\$ 4,688

***Note:** Revenue and Expenditures for the first six months of the organization's fiscal year (period ending June 30, 2019) was included in the scope of our audit, and is also being presented in the Statement of Revenue and Expenditures.