



**AUDIT OF THE OFFICE OF JUVENILE
JUSTICE AND DELINQUENCY
PREVENTION'S AWARD TO
FRIENDS FIRST INC.
LITTLETON, COLORADO**

U.S. Department of Justice
Office of the Inspector General
Audit Division

Audit Report Number GR-60-14-014
June 2014

**AUDIT OF THE OFFICE OF JUVENILE
JUSTICE AND DELINQUENCY PREVENTION'S
AWARD TO FRIENDS FIRST INC.
LITTLETON, COLORADO**

EXECUTIVE SUMMARY

The U.S. Department of Justice (DOJ) Office of the Inspector General (OIG), Audit Division, has completed an audit of the Office of Justice Programs (OJP), Office of Juvenile Justice and Delinquency Prevention (OJJDP) grant awarded to Friends First Inc. (Friends First), located in Littleton, Colorado. The grant reviewed was award number 2010-JU-FX-0011, in the amount of \$2,353,583. This audit covered grant-related activities from the project start date of October 1, 2010, through June 30, 2013. Additional grant details are shown in Exhibit 1.

EXHIBIT 1: GRANT AWARDED TO FRIENDS FIRST

AWARD NUMBER	AWARD DATE	PROJECT START DATE	PROJECT END DATE	AWARD AMOUNT
2010-JU-FX-0011	9/13/2010	10/1/2010	9/30/2014 ¹	\$2,353,583

Source: Office of Justice Programs

The purpose of our audit was to determine whether costs claimed under the grant were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the grant. The objective of the audit was to review performance in the following areas: (1) internal control environment, (2) grant drawdowns, (3) grant expenditures, (4) program income, (5) budget management and control, (6) monitoring of subrecipients, (7) financial status and progress reports, and (8) program performance and accomplishments.²

Our audit found that Friends First maintained an adequate accounting system and grant ledger, adhered to grant requirements related to drawdowns and budget management and control, and completed financial and progress reports that were submitted timely and generally met the grant's requirements and objectives. However, we identified weaknesses in Friends First's compliance with grant guidelines with respect to its internal control environment, grant expenditures, program income, monitoring of subrecipients, and program performance and accomplishments. Specifically, Friends First did not have adequate procedures to

¹ The grant project end date was originally September 30, 2013, but was extended an additional year.

² When applicable to our grant audit, we also test for compliance in several additional areas including property management, matching costs, and indirect costs. However, Friends First was not authorized to receive reimbursement for indirect costs, had not purchased accountable property with grant funds, and was not required to contribute any local matching funds. We therefore performed no testing in these areas.

review and authorize grant-related disbursements, had inadequate separation of duties over disbursements and payroll, did not consistently follow its accounting procedures with regard to processing invoices, had not established or performed adequate subrecipient monitoring procedures, had not properly accounted for program income, and did not accurately record, document and monitor its training efforts to ensure compliance with award training requirements. Additionally, we identified \$719,302 in questioned costs, comprised of \$674,576 in unsupported costs, \$38,040 in unallowable costs, and \$6,685 in program net income that should have been credited to the grant fund.³

Our report contains 10 recommendations, which are discussed in further detail in the Findings and Recommendations section of the report. We discussed the results of our audit with Friends First officials and have included their comments in the report. Our audit objective, scope, and methodology are discussed in Appendix I.

³ Differences between the individual amounts and totals are due to rounding.

**AUDIT OF THE OFFICE OF JUVENILE
JUSTICE AND DELINQUENCY PREVENTION'S
AWARD TO FRIENDS FIRST INC.
LITTLETON, COLORADO**

TABLE OF CONTENTS

INTRODUCTION	1
Background	1
Our Audit Approach.....	2
FINDINGS AND RECOMMENDATIONS	4
Internal Control Environment	4
Financial Management System.....	4
Policies and Procedures	5
Single Audit	7
Drawdowns.....	8
Grant Expenditures	8
Unsupported Expenditures	9
Unallowable Expenditures	11
Program Income.....	12
Accounting for Program Income	13
Conference Program Net Income.....	13
Budget Management and Control	14
Monitoring of Subrecipients	14
Grant Reporting.....	15
Federal Financial Reports	16
Progress Reports	16
Program Performance and Accomplishments.....	18
Program Requirements	19
STARS Program	20
Mentoring Process and Activities	20
Additional Mentoring Program Requirements.....	21
Program Evaluation.....	23
Mentoring Program Sustainment	25
Recommendations	25

APPENDIX I: OBJECTIVE, SCOPE, AND METHODOLOGY.....	27
APPENDIX II: SCHEDULE OF DOLLAR-RELATED FINDINGS.....	29
APPENDIX III: OFFICE OF JUSTICE PROGRAMS RESPONSE TO THE DRAFT REPORT	30
APPENDIX IV: FRIENDS FIRST RESPONSE TO THE DRAFT REPORT	34
APPENDIX V: OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT.....	40

**AUDIT OF THE OFFICE OF JUVENILE
JUSTICE AND DELINQUENCY PREVENTION'S
AWARD TO FRIENDS FIRST INC.
LITTLETON, COLORADO**

INTRODUCTION

The U.S. Department of Justice (DOJ) Office of the Inspector General (OIG), Audit Division, has completed an audit of the Office of Justice Programs (OJP), Office of Juvenile Justice and Delinquency Prevention (OJJDP) grant awarded to Friends First Inc. (Friends First), located in Littleton, Colorado. The grant reviewed was award number 2010-JU-FX-0011, in the amount of \$2,353,583 with a project period from October 1, 2010, through September 30, 2014.¹ This audit covered grant-related activities from the project start date of October 1, 2010, through June 30, 2013.

Background

OJP's mission is to increase public safety and improve the fair administration of justice across America through innovative leadership and programs. OJP seeks to accomplish its mission by strengthening partnerships with state, local and tribal stakeholders; ensuring the integrity of, and respect for, science – including a focus on evidence-based, “smart on crime” approaches in criminal and juvenile justice; and administering OJP's grant awards process in a fair, accessible and transparent fashion and, as good stewards of federal funds, managing the grants system in a manner that avoids waste, fraud and abuse.

As a component of OJP, OJJDP's mission is to provide national leadership, coordination, and resources to prevent and respond to juvenile delinquency and victimization. OJJDP supports states and communities in their efforts to develop and implement effective and coordinated prevention programs and to improve the juvenile justice system so it protects public safety, holds offenders accountable, and provides treatment and rehabilitative services tailored to the needs of juveniles and their families. Grant No. 2010-JU-FX-0011 was awarded to Friends First as part of the OJJDP FY 2010 Multi-State Mentoring Initiative, whose purpose was to provide funding for organizations currently operating mentoring programs in several states to expand or enhance the capacity of their mentoring initiatives.

Friends First is a non-profit corporation located in Littleton, Colorado, whose mission is to empower teens to make positive life choices and develop healthy relationships through education and mentoring. Friends First was founded in 1993 to address the increasing trend of out-of-wedlock childbearing and incidence of

¹ The grant project period originally ended on September 30, 2013, but was extended an additional year.

births to teen mothers, and its initial programming focused on mentoring youth and encouraging them to delay the onset of sexual behavior. Since its inception, Friends First expanded its focus to include promoting healthy choices to youth to refrain from using alcohol, tobacco, drugs, and violence, as well as encouraging positive youth development, character, and leadership. Friends First has several program offerings focused on teens, families, and schools. This particular OJP grant is used for Friends First's STARS Mentoring Program, which aims to reach youth with a prevention effort through mentoring before they end up in the juvenile justice system or involved in serious substance abuse or other destructive behaviors.²

Our Audit Approach

We tested compliance with what we consider to be the most important conditions of the grant. Unless otherwise stated in our report, the criteria we audit against are contained in the *OJP Financial Guide*, grant award documents, and relevant sections of the Code of Federal Regulations. In conducting our audit, we tested Friends First's:

- **Internal Control Environment** to determine the adequacy of the grantee's financial management system, accounting records, separation of duties, and policies/procedures; and to assess the risk of non-compliance with laws, regulations, guidelines, and terms and conditions of the grant.
- **Grant Drawdowns** to determine whether grant drawdowns were adequately supported and in accordance with federal requirements.
- **Grant Expenditures** to determine the accuracy, completeness, and allowability of costs charged to the grant.
- **Program Income** to determine if grant-related income was properly accounted for and used to advance the grant's program objectives.
- **Budget Management and Control** to determine the amounts budgeted and the actual costs for each approved cost category and to determine if the grantee deviated from the approved budget.
- **Monitoring of Subrecipients** to determine if the grantee provided sufficient oversight of organizations that were sub-awarded federal funds.
- **Financial Status and Progress Reports** to determine if the required periodic reports were submitted on time and accurately reflected grant activity.

² The "STARS" Mentoring Program stands for Students Teaching About Relationship and Success.

- **Program Performance and Accomplishments** to determine whether the grantee met or is capable of meeting the grant requirements and objectives, and whether the grantee collected data and developed performance measures to assess accomplishment of the intended objectives.

When applicable to our grant audit, we also test for compliance in several additional areas including indirect costs, property management, and matching costs. However, Friends First was not authorized to receive reimbursement for indirect costs, had not purchased property with grant funds, and was not required to contribute any local matching funds. We therefore performed no testing in these areas.

FINDINGS AND RECOMMENDATIONS

Our audit found that Friends First maintained an adequate accounting system and grant ledger, adhered to grant requirements related to drawdowns and budget management and control, completed financial and progress reports that were submitted timely, and generally met the grant's requirements and objectives. However, we identified weaknesses in Friends First's compliance with grant guidelines with respect to its internal control environment, grant expenditures, program income, monitoring of subrecipients, and program performance and accomplishments. Specifically, we determined that Friends First did not have adequate procedures to review and authorize grant-related disbursements, had not established subrecipient monitoring procedures, had not properly accounted for program income, and did not accurately record, document and monitor its training efforts to ensure compliance with award training requirements. Additionally, we identified \$719,302 in questioned costs, comprised of \$674,576 in unsupported costs, \$38,040 in unallowable costs, and \$6,685 in program net income that should have been credited to the grant fund.³

Internal Control Environment

We reviewed Friends First's internal control environment, including its financial management system and policies and procedures to assess its risk of non-compliance with laws, regulations, guidelines, and terms and conditions of the grant. We also interviewed Friends First management and key personnel, reviewed Friends First's Single Audit Reports for FYs 2010 through 2012, and inspected documents and records in order to further assess risk. While our audit did not assess Friends First's overall system of internal controls, we did review the internal controls of its financial management system that were specifically related to Friends First's management of the OJP grant funds. As a result, we identified internal control weaknesses related to the review and authorization of payments, separation of duties for disbursements and payroll, and also determined that some of Friends First's established internal control procedures were not functioning as intended. These matters are discussed in greater detail below.

Financial Management System

The *OJP Financial Guide* requires that recipients of grant funds have a financial management system that is able to record and report on the receipt, obligation, and expenditure of grant funds. Additionally, grantees should collect detailed accounting records and documentation to track federal funds awarded and

³ Throughout this report, differences between the individual amounts and totals are due to rounding.

drawn down, program income, subawards, contracts expensed against the award, and expenditures.

Friends First used a commercial accounting software product to account for its grant funds, process payroll and purchase transactions, and to calculate and prepare drawdown requests. We determined that access to the accounting system was password-protected and Friends First used an online backup service to back up its files on a nightly basis. Through its accounting software, Friends First maintained an OJP grant expenditure ledger which we used to identify transactions that could be traced to costs contained on invoices, bank statements, receipts, and other documentation.

Policies and Procedures

According to 28 C.F.R. § 70.21 (2009), recipients' financial management systems must provide for written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award. Therefore, we obtained a copy of Friends First's current policies and procedures and observed performance of its purchasing and payroll procedures.⁴ In addition, we considered Friends First's separation of duties for its purchasing and payroll functions. Separation of duties, according to the *OJP Financial Guide*, is "a key internal control concept that establishes procedures for certain types of financial transactions where no one person is able to execute the entire procedure alone. The most commonly used example concerns initiating a payment (writing the check) and authorizing a payment (signing the check)." Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, describes proper separation of duties as having separate personnel "with authority to authorize a transaction, process the transaction, and review the transaction."

Our audit determined that although Friends First had established an accounting and internal control policy, the policy did not include procedures to review and authorize purchases prior to initiation. Furthermore, Friends First's policies and procedures did not provide adequate separation of duties for disbursements and payroll. These and other matters are described in the following sections.

Disbursement Procedures

Friends First's accounting procedures for disbursements required that all invoices due for payment be approved in writing and that signed invoices be submitted with a check request form to the Finance Manager, who issues the check. During our transaction testing, we observed several transactions for which invoices

⁴ Friends First provided its "Internal Control/Accounting Procedures," dated July 9, 2012.

were not signed or had been submitted to the Finance Manager without a check request form. To address this issue, we recommend OJP ensure that Friends First establishes internal controls to certify compliance with its existing accounting procedures related to approving and signing invoices, and submitting them with a check request form to the Finance Manager.

We also found that Friends First's accounting policies and procedures did not require that purchase requests be reviewed and authorized by management prior to purchase with grant funds, nor did we observe that this function had been performed. As a result, Friends First did not have internal controls that could identify unreasonable or unallowable purchase requests. For example, as described in this report's section on Grant Expenditures, Friends First used grant funds for a holiday party, a gratuity, advance payments to subrecipients, and contributions to employee retirement plans, all of which were either disallowed by the *OJP Financial Guide* or not authorized in Friends First's grant budget. Had Friends First implemented a purchase authorization procedure, it would have the capability to identify such unallowable transactions. Therefore, we recommend that OJP ensure Friends First establishes a documented purchase authorization procedure to provide assurance that grant funds are being used for allowable purposes in accordance with the *OJP Financial Guide*.⁵

Finally, we determined that Friends First's purchasing separation of duties represented an internal control weakness because the Finance Manager had responsibilities over the custody of assets (checks), recordkeeping, and reconciliation. Specifically, Friends First's Finance Manager performed the following purchase-related functions: (1) recording purchase entries into the accounting system, (2) accessing the check stock and the signature stamp, (3) printing and signing the check using the signature stamp, and (4) performing the bank reconciliation. Friends First's Finance Manager believed its current system was reasonable considering Friends First's small organizational size and noted that, as a compensatory control, Friends First's Executive Director performed a monthly comparison of the bank reconciliation to the online bank statements. Although we recognize the challenges for small organizations with respect to separation of duties, we still have concerns about the compensatory control established by Friends First because of its detective rather than preventative nature. A Friends First official acknowledged that if fraud were to occur, it probably would not be noticed for at least a month when the Executive Director performed the comparison of the bank reconciliation to the online bank statements. Therefore, we recommend that OJP ensure Friends First establishes appropriate internal controls to separate or further compensate for the purchase-related custodial, recording, and reconciliation duties performed by Friends First's Finance Manager.

⁵ Examples of purchase authorization controls include reviewing and authorizing all purchase requests above a certain dollar threshold or that involve generally unallowable expenditures such as food and beverages.

Payroll Procedures

Friends First's payroll policy required that employees record their hours worked on timesheets, and to accurately allocate them between multiple grants, if applicable. On a monthly basis, Friends First employees submit timesheets to their direct supervisors, who approve and forward them to the Finance Manager for processing and payment.

Similar to purchasing, we identified deficiencies with Friends First's payroll separation of duties. The Finance Manager had the ability to modify the Employee Master File (enabling that individual to add and delete employees, and make adjustments to employee information such as pay rates and salaries), process and record payroll in the accounting system, and execute payment. Also, the Finance Manager entered and processed her own payroll.⁶ Friends First did have some compensating controls in place. Specifically, it paid its employees via direct deposit; the Executive Director performed a monthly reconciliation of the payroll run summary (which contains employee names and the direct deposit amounts) to the bank statement; and the Executive Director said several individuals were randomly selected each month to perform a detailed comparison of their timesheet totals to pay stubs, reserving extra scrutiny for the Finance Manager because of the level of control she has over the payroll process. After considering these compensating controls, in our judgment, Friends First's payroll process lacks adequate separation of duties because its Finance Manager has access to the Employee Master File, the payroll system, is involved in the payroll process, and distributes payments. We recommend that OJP ensure Friends First establishes appropriate internal controls to separate or further compensate for the overlapping payroll-related duties performed by Friends First's Finance Manager.

Subrecipient Monitoring Procedures

Friends First had not established a written subrecipient monitoring policy and did not conduct adequate monitoring activities to provide reasonable assurance that its subrecipients had administered grant funding in compliance with contract requirements and the *OJP Financial Guide*. For further detail, see the Monitoring of Subrecipients section of this report.

Single Audit

OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, requires that non-federal entities that expend \$500,000 or more per year in federal awards have a single audit performed annually. We reviewed Friends First's Single Audit reports for FYs 2010 through 2012 (fiscal year ending June 30), and found there were no reportable matters.

⁶ Friends First's Finance Manager was required to have her timesheet reviewed by the Executive Director, but pursuant to approval, processed and distributed her own payroll.

Drawdowns

The *OJP Financial Guide* requires that recipients time their drawdown requests to ensure that federal cash-on-hand is the minimum needed for disbursements or reimbursement to be made immediately or within 10 days. We reviewed Friends First's drawdowns to determine if there was adequate documentation to support each drawdown, and to determine if overall expenditures and drawdowns generally matched to ensure there were no excess funds on hand.

Friends First officials stated that drawdowns were requested on a reimbursement basis and that it calculated its drawdown amounts by generating expenditure reports from its accounting system, then comparing the current and prior expenditure balances and requesting the difference. OJP funds are electronically deposited into Friends First's bank account. As of June 30, 2013, Friends First requested \$1,953,997 in drawdowns. We reviewed all 56 drawdowns and determined that with the exception of two instances, funds had been drawn on a reimbursement basis and matched Friends First's accounting records. In the two instances where Friends First drew down more funds than supported in its accounting records, it expended the difference within 10 days.

Grant Expenditures

The *OJP Financial Guide* requires that expenditures be accounted for and adequately supported. Friends First's approved grant budget is detailed in Exhibit 1.

EXHIBIT 1. FRIENDS FIRST’S APPROVED GRANT BUDGET

COST CATEGORY⁷	APPROVED BUDGET AMOUNT	DESCRIPTION OF PLANNED EXPENDITURES
Personnel	\$799,020	Salaries for Friends First personnel
Fringe Benefit	183,775	Fringe benefits for Friends First personnel
Travel	46,641	Mentor retreats, meetings & trainings, and site visits
Supplies	123,184	Office supplies, educational supplies, copy machine lease
Contractual	825,300	Contracts with state partners (subrecipients)
Other	389,658	Contract with entity providing evaluative services, office rent, national conference, and mid-year retreat
TOTAL PROJECT COSTS⁸	\$2,367,578	

Source: Office of Justice Programs

The majority of Friends First’s budgeted expenditures were associated with personnel and contractual costs. Personnel costs were for approximately six full-time equivalents (FTE), including Friends First’s Executive Director, Grant Manager, Mentor Program Director, Project Coordinators, Finance Manager, and Assistants. Contractual costs consisted of contractually agreed-upon expenses between Friends First and its state partners and included personnel costs, overhead, and indirect costs.

We selected 50 grant expenditures to determine whether they were approved and authorized, within the scope of the award, properly classified in the accounting records, properly supported with appropriate documentation, and correctly charged to the grant. As detailed in the following sections, we identified \$674,576 in unsupported costs and \$38,040 in unallowable costs.

Unsupported Expenditures

The *OJP Financial Guide* states that grant recipients’ accounting systems should require them to support accounting records with source documentation (e.g. cancelled checks, paid bills, payroll, time and attendance records, and contract and

⁷ Friends First’s approved grant budget did not contain funding for the equipment, construction, and indirect cost categories and are therefore omitted from this Exhibit.

⁸ The \$2,367,578 in “Total Project Costs” is comprised of \$2,353,583 in federal funding granted to Friends First and \$13,995, which represents Friends First’s non-federal share that was deemed necessary for completion of the project.

sub-grant award documents). Our transaction testing identified \$674,576 in unsupported expenditures, as described below.

- \$670,566 in payments to subrecipients under contract.** The *OJP Financial Guide* states that where the conduct of a program or one of its components is delegated to a subrecipient, the direct recipient is responsible for all aspects of the program, including the accounting of receipts and expenditures. Friends First entered into contracts with five state partners (referred to as subrecipients) that were responsible for implementing the nationwide grant program; the majority of the contract costs were for subrecipient salaries.⁹ The contract language required that subrecipients' "weekly timesheets be kept and submitted monthly to Friends First" and that Friends First would pay its subrecipients on "a monthly basis, only after all paperwork has been submitted." During our transaction testing, we determined that contractual payments to state partners had no supporting documentation other than check copies or bank statements. Friends First had been issuing payments to its subrecipients without obtaining and reviewing the supporting documentation necessary to determine if its subrecipients had met the contractual and *OJP Financial Guide* requirements. As a result, we questioned all \$670,566 in payments to subrecipients under contract as unsupported.

**EXHIBIT 2. UNSUPPORTED PAYMENTS TO
SUBRECIPIENTS UNDER CONTRACT**

SUBRECIPIENT STATE	AMOUNT
Alaska	\$50,821
Arkansas	162,968
New Mexico	246,881
Tennessee	131,637
Texas	78,258
TOTAL	\$670,566

Source: Friends First

- \$2,148 in office supplies.** From October 2010 through June 2011, Friends First charged the grant \$300 per month for office supplies. In addition, from July 2011 to June 2013, Friends First charged the grant an "Overhead Allocation Expense," including the same amount for office supplies. Friends First officials informed us that these charges were not actual costs, but estimates of its monthly supply costs, derived from the grant budget. We determined that Friends First had tracked its costs for office supplies across all grants but had not allocated the OJP grant's share to its respective ledger.

⁹ Friends First initially contracted with state partners located in Alaska, Arkansas, New Mexico, and Tennessee; however, the partner in Alaska would later be replaced with a partner in Texas. Friends First also administered its program in Colorado, but with its own staff.

We compared the ledger's actual costs to the amount charged to the grant and determined that Friends First had overcharged the grant \$2,148 more in office supplies than what was supported.¹⁰ Therefore, we questioned this \$2,148 as unsupported.

- **\$1,862 in miscellaneous unsupported payments.** Our transaction testing also identified the following \$1,862 in unsupported outlays: (1) \$892 in travel costs incurred by a grant subrecipient and reimbursed by Friends First; (2) \$200 for a mentor/mentee bowling trip; and (3) \$770 in grant funds that Friends First paid to its former Grant Manager to reimburse internet and cell phone charges.

Unallowable Expenditures

The *OJP Financial Guide* describes unallowable expenditures as costs the government is unwilling to pay as a direct charge or through an indirect cost pool applied to the federal grant or contract. An organization is not prohibited from incurring unallowable expenditures but they cannot be recovered either directly or indirectly under federal grants or contracts. Our transaction testing identified \$38,040 in unallowable expenditures, as described below.

- **\$28,228 in employer contributions to employee retirement plans.** Friends First charged the grant for employer contributions to some of its employees' retirement plans. However, Friends First did not specify this fringe benefit type in its grant budget. A Friends First official disagreed and referred to the language in its detailed budget narrative stating that Friends First's fringe benefits consisted of "Social Security, disability, healthcare, dental, eye care, and *etcetera*." This official stated that retirement contributions were an "etcetera" fringe benefit. We disagree with the use of such a catch-all designator; according to OJP's Budget Detail Worksheet instructions, "fringe benefits should be based on actual costs or an approved negotiated rate. If not based on an approved negotiated rate, list the composition of the fringe benefit package." Because OJP did not have an approved negotiated rate and did not include retirement plan contributions in its budget, this is an unallowable cost and we question all \$28,228 in employer retirement contributions.
- **\$5,785 in advance payments and travel funds paid to subrecipients.** We determined that Friends First advanced funds to some of its partner subrecipients, only requiring that supporting documentation be provided several months later. For example, in April 2012, Friends First advanced funds via check to its Texas partner for mentor/mentee supplies, graduation fees, activities, and travel funds. Friends First's contracts with its state

¹⁰ Friends First had also charged its estimated postage costs to the grant from October 2010 through June 2011. However, we determined that actual postage charges exceeded these estimates during that timeframe, and therefore did not question any costs.

partners contained inconsistent provisions, requiring that grant funds for supplies and activities be provided on a *reimbursement* basis, while simultaneously requiring that these funds be paid to state partners at the signing of the contract, before the state partner would have incurred such expenditures. Regardless, the *OJP Financial Guide* requires that advances be spent within 10 days of receipt. This did not occur; according to its accounting records, Friends First advanced funds on a quarterly basis. As the *OJP Financial Guide* states, fund requests from subrecipients create a continuing cash demand on award balances and idle funds in the hands of recipients will impair the goals of effective cash management. As a result, we questioned all instances in which funds were advanced quarterly, totaling \$3,980.

In addition, Friends First paid for State partners' transportation costs to a national conference despite the contracts between the parties stipulating that such transportation costs be covered by the State partner and not with grant funds. Therefore, we questioned all \$1,805 of these national conference related transportation costs. Overall, we questioned \$5,785 of costs related to advanced payments and travel funds to subrecipients.

- **\$983 in grant funds provided to a Friends First employee to purchase health insurance.** During our transaction testing, we determined that from July 2011 through June 2012, Friends First paid \$3,600 (\$300 per month for 12 months) in grant funds to one employee for the purchase of health insurance. Friends First officials stated they chose this arrangement for cost saving purposes. We determined that the employee used the grant funds to join and contribute to a health care sharing ministry, but the actual costs incurred from July 2011 through June 2012 was only \$2,617, or \$983 less than the \$3,600 in grant funds that Friends First had provided. As a result, we question this \$983 in grant funds paid in excess of actual costs.
- **\$3,045 in miscellaneous expenditures.** We found that Friends First had spent: (1) \$2,763 on office cleaning expenses, which was not approved in its budget; (2) \$206 spent on meals at a holiday party; (3) two airline seating upgrades totaling \$45; and (4) \$31 in tips, which are prohibited by the *OJP Financial Guide*.

Program Income

Although grant documentation and statements made by Friends First officials during this audit suggested that Friends First derived no program income from the OJP grant we audited, we determined that Friends First held or attended multiple conferences that were funded by attendee registration fees it had collected. Because these conferences were also funded by other non-OJP grant programs, it was necessary for Friends First to track or allocate a portion of the conference expenditures and program income to the OJP grant. Friends First did not perform such tracking or an allocation and therefore did not properly account for the OJP grant's share of the program income. We estimated that during our period of

review, Friends First had generated approximately \$19,881 in net income, of which a share should have been, but was not, credited to the OJP grant to advance program objectives. Further details are provided below.

Accounting for Program Income

Between 2010 and 2012, Friends First hosted or participated in several annual national conferences and winter retreats (hereafter referred to as “conferences.”) To attend, participants associated with the OJP grant program paid registration dues to Friends First, and if mentors could not cover the costs of attendance, could apply for a “scholarship” that would authorize use of OJP grant funds to cover their remaining registration costs. Because the *OJP Financial Guide* considers registration and tuition fees as types of program income, Friends First needed to account for these funds accordingly. However, instead of recording or transferring the OJP participant registration dues into its respective grant ledger, Friends First maintained these dues in a non-OJP “registration/tuition fees” account. Also, although Friends First properly recorded the participant scholarships into the OJP grant ledger, it incorrectly classified the funds as grant expenditures instead of program income.¹¹

The *OJP Financial Guide* requires that registration fees – which are considered program income - be accounted for up to the same ratio of federal participation as funded in the project or program. For example, if Friends First held a conference that was funded 50 percent by the OJP grant and the conference received \$1,000 in program income, then \$500 should be credited to the OJP grant account to advance program objectives. However, Friends First could not properly account for its program income because after commingling all conference expenditures into the same account, it had not allocated a share of the expenditures to the OJP grant. We informed Friends First officials that in such instances, it needed to establish a methodology that allows it to allocate accumulated conference expenditures to their respective grants.

Conference Program Net Income

Our review of four conferences occurring from 2010 through 2012 determined that Friends First had earned net income of \$19,881. Instead of crediting OJP’s share of the conference net income back to its grant account, Friends First collected the net income, noting that this amount covered Friends First’s share of the conference’s indirect costs. However, Friends First’s budget did

¹¹ While the participant scholarships resemble expenditures (because the grant is covering student tuition), these transactions are ultimately a transfer of grant funds, via journal entry, to a Friends First revenue account. If the scholarships were to exceed actual conference expenditures, Friends First would earn net income. Because of this uncertainty, we treated the mentor scholarships as program income.

not include funding for indirect costs and the indirect cost calculation used was not based on an approved estimate or the application of an approved indirect cost rate. To determine the OJP grant's reasonable share of the conference net income, we worked with Friends First to develop a methodology to estimate the OJP grant's portion of overall conference costs using the ratio of OJP-related attendees to overall attendees. We determined that of the \$19,881 in net income generated from the four conferences, \$6,685 should have been credited to the OJP grant account. Furthermore, Friends First should have reported its program income on its periodic Federal Financial Reports (FFR); FFRs are described later in this report. Therefore, we recommend that OJP ensure Friends First credits the OJP grant account for the \$6,685, establishes internal control procedures that allow it to properly account for grant-related program income, and report future program income on its Federal Financial Reports.

Budget Management and Control

The *OJP Financial Guide* addresses budget controls surrounding grantee financial management systems. According to the *OJP Financial Guide*, grantees are permitted to make changes to their approved budgets to meet unanticipated program requirements. However, the movement of funds between approved budget categories in excess of 10 percent of the total award must be approved in advance by OJP.

We compared the actual amounts spent in each budget category to the budgeted amounts in the same categories, and determined that Friends First adhered to the *OJP Financial Guide* requirements.

Monitoring of Subrecipients

According to the *OJP Financial Guide*, direct grant recipients should be familiar with, and periodically monitor, their subrecipients' financial operations, records, systems, and procedures. As part of the subrecipient monitoring process, recipients need to develop systems, policies, and procedures to ensure that subrecipient activities are conducted in accordance with federal program and grant requirements, laws, and regulations.

To accomplish its grant objectives, Friends First partnered with organizations in Arkansas, New Mexico, Tennessee, and Texas, whose responsibilities included providing the grant program curriculum, providing mentoring sessions, participating in conference calls, and collecting and submitting student evaluation data.¹² Friends First also partnered with an independent evaluation firm that was responsible for data collection, developing and maintaining evaluation tools, developing youth surveys, preparing progress reports, and providing summative

¹² Friends First initially partnered with an organization in Alaska but subsequently replaced that organization with one in Texas.

assessment and evaluation. The specific terms and conditions of the partnerships were established in contracts that were updated periodically.

Friends First had not established written subrecipient monitoring procedures. Responsibility for subrecipient monitoring was designated to Friends First's Grant Manager, who stated that he was unfamiliar with the *OJP Financial Guide* and believed its provisions were the responsibility of the Finance Manager.

One of the mechanisms to monitor subrecipients' use of federal funds is to perform an assessment of their financial management systems. Friends First's Grant Manager, whose employment with Friends First ended during the course of our audit, was unavailable to describe if such an assessment had been performed. Also, Friends First had not retained or was not aware of any documentation on such monitoring efforts. At our request, Friends First asked two of its subrecipients if Friends First's Grant Manager had performed an assessment of their financial management systems. One subrecipient responded that they had established a "checks and balances system" but did not provide details of what such a system entailed. The other subrecipient explained that they had a conversation with Friends First about properly accounting for receipts and how money was spent, but recalled that the Grant Manager's queries about its accounting system were limited to asking where files were kept. In conclusion, we were not provided adequate evidence that Friends First had evaluated and monitored its subrecipients' financial management systems as required by the *OJP Financial Guide*.

Another mechanism to monitor subrecipient financial activities is to review detailed financial data, including timesheets, invoices, contracts, and ledgers that tie back to financial reports. We determined that Friends First had not adequately reviewed its subrecipients' detailed financial data. Specifically, our transaction testing revealed that payments and reimbursements to subrecipients often were not accompanied by supporting documentation such as invoices, receipts, timesheets, performance reports and other records necessary to assess the validity of subrecipient transactions and to ensure compliance with contract requirements. For example, in October 2010, Friends First issued a payment to its subrecipient in New Mexico for \$7,481 for salaries and overhead. However, prior to payment, Friends First had not collected any supporting documentation such as an invoice and timesheets. This conflicted with Friends First's contract requirement that it disburse funds after it collected the appropriate records, such as timesheets, and that the subrecipients were in compliance with all contractual requirements.

Therefore, we recommend that OJP ensure that Friends First establishes written subrecipient monitoring procedures to provide assurance that subrecipient activities are conducted in accordance with grant and federal program requirements, and laws and regulations.

Grant Reporting

The special conditions of this grant require that Friends First comply with administrative and financial requirements outlined in the *OJP Financial Guide* and

the requirements of OMB Circular A-133.¹³ The *OJP Financial Guide* requires that grantees submit both financial and program progress reports to inform awarding agencies of the status of each award. Federal Financial Reports (FFR) should detail the actual expenditures incurred for each quarterly reporting period, while progress reports should be submitted semiannually and describe the activities, obstacles, and achievement of the project supported by each award.

Because accurate and timely FFRs and progress reports are necessary to ensure that DOJ awarding agencies can effectively monitor award activities and expenditures, we reviewed Friends First's reports for Grant No. 2010-JU-FX-0011. As detailed in the following sections, Friends First submitted the required FFRs and progress reports in a timely manner, and aside from not reporting conference-related program income on its FFRs, accurately reported grant expenditure activity. We also verified that Friends First's progress reports accurately reflected actual program accomplishments.

Federal Financial Reports

DOJ awarding agencies monitor the financial performance of each grant via FFRs. According to the *OJP Financial Guide*, FFRs should be submitted within 30 days of the end of each quarterly reporting period. Awarding agencies may withhold funds or future awards if reports are submitted late, or not at all.

We reviewed Friends First's last four FFRs for timeliness and accuracy. We found that all of the FFRs were submitted timely and that the reports were generally accurate and reconciled to the accounting records, with only negligible differences. However, as described in the Program Income section of this report, Friends First held or attended multiple conferences that generated program income that should have been reported in its FFRs.

Progress Reports

While FFRs report grant financial activity, progress reports describe the performance of activities or the accomplishments of objectives as set forth in the approved award application. According to the *OJP Financial Guide*, grantees are required to submit progress reports every 6 months during the performance period of the award. Progress reports are due 30 days after the end of each semi-annual reporting period, June 30 and December 31. DOJ awarding agencies may withhold grant funds if grantees fail to submit accurate progress reports on time.

¹³ OMB Circular A-133 requires non-federal entities that expend at least \$500,000 a year in federal awards to have an audit conducted of its financial statements. The purpose of the audit, also known as a Single Audit, is to determine whether the financial statements and schedule of expenditures of federal awards are presented fairly in all material respects in conformity with generally accepted accounting principles. As discussed in this report, we reviewed Friends First's Single Audit reports for FYs 2010 through FY 2012.

To assess whether Friends First submitted progress reports on time, we reviewed the last four progress reports and compared the submission dates to the due date for each progress report. We found that all four progress reports tested were submitted in a timely manner.¹⁴

One of the grant’s special conditions required Friends First to report data on OJJDP-approved performance measures as part of the progress report and submit the results to OJJDP’s Performance Measures online website. We reviewed Friends First’s two most recent progress reports for the periods ending December 31, 2012, and June 30, 2013, and determined that Friends First had submitted the reports containing the requisite performance measures and indicators to the OJJDP Data Collection Tool.

Finally, we reviewed Friends First’s two most recent progress reports to determine if they contained actual accomplishments in line with program goals and objectives, and to determine if the reported accomplishments could be verified with sufficient supporting documentation. To do this, we judgmentally selected and reviewed Friends First’s reported progress on four of its goals. We determined that Friends First had properly documented its accomplishments, which were in line with its program goals. Exhibit 3 summarizes the results of our analysis.

EXHIBIT 3. ANALYSIS OF FRIENDS FIRST’S PROGRAM GOALS AND ACCOMPLISHMENTS

GOAL	PROGRESS REPORT PERIOD ENDING	FRIENDS FIRST RESPONSE	SUPPORTED BY SOURCE DOCUMENTATION?
RECRUIT ADDITIONAL STUDENT MENTORS	December 31, 2012	93 additional mentors were recruited by all five of the state partners	Yes
	June 30, 2013	58 additional mentors were recruited by three state partners	Yes
PEER MENTORS PARTICIPATE IN THE STARS NATIONAL CONFERENCE	December 31, 2012	87 peer mentors from Colorado, New Mexico, Tennessee, and Texas attended the July 2012 STARS National Conference	Yes
	June 30, 2013	98 peer mentors from Colorado, New Mexico, Tennessee and Texas attended the June 2013 STARS National Conference	Yes
PROVIDE ONGOING TECHNICAL ASSISTANCE TO	December 31, 2012	Held weekly calls between Program Director and state coordinators, and conduct conference calls as needed	Yes
	June 30, 2013		

¹⁴ The June 30, 2012 progress report was submitted a single day late; Friends First officials stated the late submission was due to a password issue with the OJP system. We are not making a recommendation related to this matter.

GOAL	PROGRESS REPORT PERIOD ENDING	FRIENDS FIRST RESPONSE	SUPPORTED BY SOURCE DOCUMENTATION?
STATES			
OVERSEE IMPLEMENTATION OF ALL STATE EFFORTS	December 31, 2012	Conducted site visits to Friends First's state partners	Yes
	June 30, 2013	Serve an additional 120 students in six programs in Colorado (as a result of obtaining approval to use existing funds to extend programming for one year)	Yes

Source: Friends First and OJP

Program Performance and Accomplishments

According to the FY 2010 OJJDP Multi-State Mentoring Initiative solicitation, grantees were to propose enhancement or expansion initiatives that would assist in the development and maturity of community programs to provide mentoring services to high-risk populations that are underserved due to location, shortage of mentors, or special physical or mental challenges of the targeted population. The program goal was to develop or enhance current mentoring programs that strive to reduce juvenile delinquency and gang participation, improve academic performance, and reduce school drop-out rates.

The OJJDP award to Friends First was for a five state peer group mentoring program initiative to annually serve 450 at-risk high school freshman students by older peer mentors. The award goals and objectives for participating youth were to:

1. Reduce the likelihood (incidence) of juvenile delinquency.
2. Reduce the likelihood of alcohol, tobacco, and other drug (ATOD) use, and sexual activity.
3. Reduce truancy and high school drop-out rates.
4. Increase the intentions to avoid risk behaviors such as ATOD use, school violence, and sexual activity.
5. Increase academic scores.
6. Increase developmental assets.

In support of the OJJDP award goals and objectives for participating youth, Friends First was also required to perform several tasks and objectives in support of the mentoring initiative. Those tasks and objectives are discussed below.

Program Requirements

The FY 2010 OJJDP Multi-State Mentoring Initiative solicitation stated that mentoring is a strategy designed to provide youth with the skills, resources, and confidence they need to reach their potential and succeed in life. The solicitation also stated the initiative provided funding for organizations currently operating mentoring programs in several states to expand or enhance the capacity of their mentoring initiatives.

According to the award document, Friends First proposed to perform the following objectives in support of the mentoring initiative:

- Annually serve 450 at-risk high school freshman students, mentored by older peers in the states of Arkansas, Colorado, New Mexico, Tennessee, and Alaska;
- Ensure that mentors receive 36 hours of training through conferences and meet twice per month with their Program Coordinators;
- Ensure mentors and mentees meet at least 25 times each year;¹⁵
- Provide program activities that include an evidence-based curriculum, guest speakers, cultural, recreational and educational outings, a national conference, and local retreat;
- Provide coordination of all mentor trainings and year-round technical assistance to Program Coordinators; and
- Measure progress towards goals with an independent evaluator.

The Friends First mentoring program initially included at-risk high school students from the states of Arkansas, Colorado, New Mexico, Tennessee, and Alaska. However, the state partner for Alaska schools was dropped from the program in the pilot year and replaced by a state partner in Texas.¹⁶ Selection of the partner state communities was based on their higher juvenile arrest rates, higher school drop-out rates, and lower economic status. We reviewed the annual agreements between Friends First and each of the state partners and determined that Friends First complied with the award requirement to provide mentoring services to at-risk high school students in each of the proposed five states. We also reviewed the annual contractual agreements between Friends First and the

¹⁵ Friends First received OJP approval through a grant adjustment notice to reduce the number of required mentor-mentee meetings from 25 to 18 annually.

¹⁶ The state partner for Alaska was terminated from the mentoring program on November 14, 2011, due to non-performance issues related to the agreed upon scope of work to be performed. The Texas state partner mentoring program agreement was effective on November 14, 2011.

independent evaluator and determined that Friends First complied with the award requirement to hire an independent third party evaluator to measure the program's performance in achieving the goals for the mentoring initiative.

STARS Program

Friends First has several program offerings focused on teens, families, and schools including the Students Teaching About Relationship and Success (STARS) program. The Friends First website states that the STARS program, created in 1996, is a peer mentoring program that provides support, character, and healthy relationships to youth. The STARS program trains student mentors to provide peer support to younger youth during school or in after school programs. Youth participants learn from their mentors and the STARS program curriculum the importance of goal setting, self-control, how to identify and maintain healthy relationships, effective communication skills, self-determination, and refusal skills. The program provides students the knowledge and skills to make healthy choices and avoid risk behaviors including drugs, alcohol, tobacco, sexual activity, and violence.

The OJJDP award required Friends First to provide mentor activities including the annual STARS National Conference (SNC), and a STARS Winter Retreat, as well as activities to include guest speakers and cultural, recreational, and educational outings. According to the Friends First website, the SNC is a four-day, youth driven conference that equips and empowers youth ages 12-18 with healthy relationship skills and education. SNC workshops addressed topics such as mentoring, success, media, culture, communication, and peer pressure. The STARS Winter Retreat provided on-going leadership training for program mentors and provides tools to encourage mentors to continue making healthy positive choices. As previously stated in Exhibit 3 within the Progress Reports section of the report, we reviewed the student mentor attendance reports for years 2012 and 2013 for the SNC and did not identify any discrepancies. In addition, we reviewed the Friends First general ledger for expenditures related to the SNCs and Winter Retreats and identified expenditures related to each event as well as other required student outings. Based on our review, we determined that Friends First provided the required mentoring activities, including the annual SNC, STARS Winter Retreat, guest speakers, as well as cultural, recreational, and educational outings.

Mentoring Process and Activities

Each state partner had a Lead Program Coordinator (LPC) who was responsible for the oversight of the entire project in each state, including recruiting and screening mentors, assuring mentors were trained, participating in mentor sessions, and working with other Program Coordinators (PC). The PC in each state was directly responsible for overseeing two to three of the participating high schools and the mentors at each school. The Program Manager (PM) was responsible for the reporting of all activities and worked directly with the

independent evaluator and each state LPC to assure all program participants and hours were accurately tracked.¹⁷ The PM reported to the Friends First Executive Director who was responsible for the general oversight of the project to ensure all goals and objectives for the mentoring program were met or exceeded.

To accomplish the goals and objectives for mentoring program youth, student mentors were recruited and trained to carry out the STARS mentoring program by each of the state partners. Participants from each high school were divided into two separate groups. One group was assigned student mentors to the program curriculum for the STARS mentoring program. The other group of students was assigned to the Positive Action curriculum which also provided weekly lesson instructions to the students, but in a classroom setting in which students received guidance from an instructor and were not assigned a mentor for the duration of the school year. We reviewed the program curriculum provided by Friends First and determined the STARS curriculum appears to be evidence-based and the weekly lesson plans correlate with the stated goals and objectives for program youth. In addition, we reviewed the Positive Action High School Instructors Kit and several of the weekly lessons and determined the weekly instruction plan correlates with the stated goals and objectives for program youth. Also, the OJJDP Model Programs Guide recognizes Positive Action as an effective evidence-based program.

Student participation and activities were tracked on a weekly basis for both the STARS and Positive Action mentoring programs. The Participant Attendance Log was used to track student attendance and included student demographic information which was derived from each student's signed consent form as well as student attendance in the program's activities. To track program performance accomplishments, each state partner used a Fidelity Form. The Fidelity Form was used on a weekly basis to assess whether weekly tasks were performed for each program. The PM stated twice a year that he performed site visits to each state partner to verify the accuracy of the information reported as well as to interact with each program's students. During our review of expenditures within the general ledger, we identified entries directly related to the PM conducting site visits to each state partner.

Additional Mentoring Program Requirements

To determine whether Friends First provided mentoring services to 450 at-risk high school students, we requested and received copies of the independent evaluator's preliminary findings for each year of the award. Based on our review of each school year we were able to conclude that Friends First generally complied with the award requirement to annually provide peer mentoring services for 450 at-risk high school students. The independent evaluator's report stated that 698 students participated in the two curricula (STARS and Positive Action) in program

¹⁷ Friends First's Program Manager also has the title of "Grant Manager."

year 2 and 1,381 student youth were served by the mentoring program in year 3.¹⁸ The pilot year (year 1) served 358 at-risk students and did not meet the required 450 students served; however, due to the issues related to dropping the Alaska state partner and later adding the Texas state partner, the timing between the project start date (October 1, 2010), and the beginning of each state partner's school year, we do not take exception to Friends First not meeting the requirement in the pilot year of the award.

Friends First was also required to provide coordination of all mentor trainings and year-round technical assistance to the state partner PCs. We reviewed supporting documentation, including the annual agreements Friends First had with each state partner and determined Friends First provided the required coordination of all mentor trainings and technical assistance to their partner PCs.

The grant award also required program mentors to receive 36 hours of training by attending the SNC and mentor retreats. To assess compliance with this requirement, we judgmentally selected 67 mentor training records across six STARS school programs for the 2012-2013 school year. We determined that 19 of the 67 mentors did not attend the SNC training. Friends First officials provided several reasons a mentor may not have attended the SNC training, including an unexpected need for additional mentors after the start of the program's school year, a program school joining the mentoring initiative after the annual SNC training, mentor scheduling conflicts, and insufficient travel funds to attend. In addition, Friends First stated that mentor trainings may have been performed by the PCs but trainings may not have been properly documented. However, we did not identify any instances of additional PC trainings in the records, and also determined that 18 of the 19 mentors received some mentor trainings through the STARS Winter Retreat or the Fall Mentor training sessions, which were typically held at the beginning of the school year.¹⁹ In conclusion, although the 19 mentors did not attain the 36 hours of training through conferences, we determined that Friends First's explanations for why a mentor may not have attended the SNC training are reasonable and therefore we do not take exception.

Our review identified shortcomings related to Friends First's training file. Specifically, we identified discrepancies related to the training files maintained by Friends First and the program state partners. For example, only one of the six STARS school programs had recorded the actual number of training hours earned by its mentors. The Friends First training file was produced at a summary level and did not include the names or the actual number of training hours each mentor attended. We also found deficiencies related to the actual number of mentors listed in the program partners' training records compared to the number of mentors listed

¹⁸ The number of youth served in year 3 includes both duplicate and unduplicated youth. This may mean that the same mentor is listed to two program sites and is thus counted more than once.

¹⁹ One mentor's training record was for the spring school term and therefore this mentor was unable to have attended the STARS Winter Retreat or the Fall Mentor training sessions.

in the Friends First training file. Furthermore, we identified discrepancies in the program partners' training files with regard to identifying which annual SNC training mentors actually attended. Accurately recording all mentor training sessions and the number of hours each mentor attended would help Friends First ensure compliance with the award training requirements. Therefore, we recommend that OJP ensure Friends First establishes internal controls that accurately record, document, and monitor its training efforts to ensure compliance with award training requirements.

Using the 2012-2013 STARS program training records, we also analyzed whether STARS program coordinators met twice per month with their mentors as required by the award. We judgmentally selected five school programs for review and determined all five school programs complied with the award requirement.

Finally, using the 2012-2013 STARS mentor program training records, we performed an analysis to determine whether STARS program mentors met with their mentees 18 times per year as required by the grant. We judgmentally selected seven STARS school programs for analysis and determined that student mentors did generally meet with their mentees 18 times per year. Specifically, we determined 5 of the 7 school programs we reviewed met the award requirement. One state partner program in Arkansas was shortened by four to six weeks due to the state partner providing Friends First a discontinuation notice due to extenuating circumstances. The school program was on track to meet the award requirement prior to the discontinuation notice and mentors did meet with their mentees 85 percent of the time based on the number of mentoring sessions available to attend. Also, one school mentoring program in Texas was shortened by three sessions due to required state testing and school assemblies. Otherwise, the school program was on track to meet the award requirement and mentors did meet with their mentees 86 percent of the time based on the number of mentoring sessions available to attend. As a result, we determined that both school mentoring programs met the intent of the award requirement for mentors and mentees to meet a significant portion of the school year and we do not take exception to either school program not meeting the requirement to meet 18 times per year.

Program Evaluation

As required by the OJJDP award, Friends First entered into a contractual agreement with an independent evaluator to assess Friends First's progress in meeting the goals and objectives for the OJJDP mentoring award over a three year period. The agreement required the independent evaluator to provide a stand-alone progress report at the end of the 36-month award period describing the results of the Friends First Multi-State Mentoring Program.

According to the Friends First grant application, to evaluate each program (STARS and Positive Action), students were asked to take a baseline (pre) questionnaire at the beginning of each program and then a post questionnaire at the conclusion of each program. Evaluation activities included measuring changes in mentee psychosocial outcomes (attitudes, knowledge, skills, and behavioral

intentions) and in behaviors (gang involvement, truancy, academic progress, risk behaviors, family relations, re-offend, social competence, and substance abuse). Program results were provided to the independent evaluator for analysis. Progress towards goal achievement was to be measured by the independent evaluator through pre, post, and 6, 12, and 24 month follow-up surveys.

The Friends First January 1 to June 30, 2013, Categorical Assistance Progress Report reported three substantive changes had been made in the performance measures design since the mentoring project was first proposed. The changes included:

1. A comparison group was not developed due to site difficulty in identifying a sufficient number of schools and establishing an equal number of comparison groups with high risk students. Instead a one-group pre-post design was used and the focus was on behavioral intentions.
2. The initial hypothesized magnitude of pre-post change was considered unrealistically high and modest changes were made.
3. Follow up for the high-risk students at 12 and 24 months after completion of the program was hindered because attrition was very high and schools were reluctant to identify and continue tracking the students.

Friends First provided the OIG with copies of preliminary reports completed by the independent third party evaluator for each of the program years. The reports for each year of the three year program provided some initial findings and summary results; however, the information did not include a comprehensive analysis or a detailed narrative by the program evaluator to allow us to determine whether the program goals and objectives for participating youth were being met. The reports became more detailed in each succeeding year with the third year of the program including additional detailed demographic information and specific questions and responses from students in the STARS and Positive Action programs. Also, the Friends First semi-annual OJJDP Performance Data Reports and statistical data provided by the independent evaluator for the program's combined second and third years provided some program performance information; however, we were unable to draw any conclusions using the data provided in the reports.

We requested a copy of the third party evaluator's final written report containing the overall results of the mentoring program for the award period. As of January 24, 2014, Friends First officials stated they had not received the completed final report from the evaluator. Without the final analysis and summary evaluation report discussing the overall effectiveness of the mentoring program, we were unable to determine whether Friends First achieved the stated program goals and objectives for participating youth. However, we were able to conclude that Friends First generally met the award requirements in support of the award mentoring initiative.

Mentoring Program Sustainment

Friends First stated that they plan to sustain or expand their juvenile mentoring program beyond the grant funding period and have developed a training and license agreement that they are pursuing with their current state partners in Tennessee, New Mexico and Texas. Sustainment or expansion of the Friends First juvenile mentoring program would continue to promote the OJJDP award program goal to develop or enhance current mentoring programs that strive to reduce juvenile delinquency and gang participation, improve academic performance, and reduce school drop-out rates.

Recommendations

We recommend that OJP:

1. Ensure that Friends First establishes internal controls to ensure compliance with its existing accounting procedures related to approving and signing invoices, and submitting them with a check request form to the Finance Manager.
2. Ensure that Friends First establishes a documented purchase authorization procedure to provide assurance that grant funds are being used for allowable purposes in accordance with the *OJP Financial Guide*.
3. Ensure that Friends First establishes appropriate internal controls to separate or further compensate for the purchase-related custodial, recording, and reconciliation duties performed by Friends First's Finance Manager.
4. Ensure that Friends First establishes appropriate internal controls to separate or further compensate for the overlapping payroll-related duties performed by Friends First's Finance Manager.
5. Remedy \$674,576 in unsupported questioned costs.
6. Remedy \$38,040 in unallowable questioned costs.
7. Credit the grant account for the \$6,685 in program income generated by four conferences occurring from 2010 through 2012.
8. Ensure that Friends First establishes internal control procedures that allow it to properly account for grant-related program income, and report future program income on its Federal Financial Reports.
9. Ensure that Friends First establishes written subrecipient monitoring procedures to provide assurance that subrecipient activities are conducted in accordance with federal program and grant requirements, laws, and regulations.

10. Ensure Friends First establishes internal controls that accurately record, document, and monitor its training efforts to ensure compliance with award training requirements.

APPENDIX I

OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of our audit was to determine whether reimbursements claimed for costs under Grant No. 2010-JU-FX-0011 were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the grant. The objective of the audit was to review performance in the following areas: (1) internal control environment, (2) grant drawdowns, (3) grant expenditures, (4) program income, (5) budget management and control, (6) monitoring of subrecipients, (7) financial status and progress reports, and (8) program performance and accomplishments. When applicable, we also test for compliance in several additional areas including property management, matching costs, and indirect costs. However, Friends First was not authorized to receive reimbursement for indirect costs, had not purchased accountable property with grant funds, and was not required to contribute any local matching funds. We therefore performed no testing in these areas.

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

This was an audit of the Office of Justice Programs (OJP), Office of Juvenile Justice and Delinquency Prevention (OJJDP), Grant No. 2010-JU-FX-0011, in the amount of \$2,353,583, awarded to Friends First, located in Littleton, Colorado. Our audit generally covered grant activities from the project start date of October 1, 2010, through June 30, 2013, but also included select information through February 2014. As of June 30, 2013, Friends First requested \$1,953,997 in drawdowns.

We tested compliance with what we consider to be the most important conditions of the grant award. Unless otherwise stated in our report, the criteria we audited against are contained in the *OJP Financial Guide*, grant award documents, and relevant sections of the Code of Federal Regulations.

In conducting our audit, we performed sample testing for grant expenditures. In this effort, we employed a judgmental sampling design to obtain broad exposure to numerous facets of the grant reviewed, such as dollar amounts or expenditure category. We selected a sample of 50 transactions, including 10 of the highest cost items and 40 judgmentally selected transactions. This non-statistical sample design does not allow projection of the test results to the universes from which the sample was selected.

We also tested for the timeliness and accuracy of financial and progress reports by selecting the four most recent FFRs and Progress Reports for the grant.

We also reviewed the capabilities of Friends First's accounting system and obtained and reviewed its employee handbook and accounting policies and procedures. However, we did not test the reliability of the financial management system as a whole.

APPENDIX II

SCHEDULE OF DOLLAR-RELATED FINDINGS

<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>PAGE(S)</u>
QUESTIONED COSTS²⁰		
Unsupported payments to sub-recipients under contract	\$670,566	9-10
Unsupported office supply costs	2,148	10
Unsupported miscellaneous costs	1,862	11
<i>Total Unsupported</i>	<i>\$674,576</i>	
Unallowable employer contributions to employee retirement plans	\$28,228	11
Unallowable advance payments and travel funds paid to sub-recipients	5,785	11-12
Unallowable payment to a Friends First employee to purchase health insurance	983	12
Unallowable miscellaneous costs	3,045	12
<i>Total Unallowable</i>	<i>\$38,040²¹</i>	
<u>TOTAL QUESTIONED COSTS</u>	<u>\$712,616</u>	
ENHANCED REVENUE²²		
Enhanced revenue from program income generated by four conferences	\$6,685	13-14
<u>TOTAL ENHANCED REVENUE</u>	<u>\$6,685</u>	
TOTAL DOLLAR-RELATED FINDINGS	\$719,302	

²⁰ *Questioned Costs* are expenditures that do not comply with legal, regulatory or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation.

²¹ Differences between the individual amounts and totals are due to rounding.

²² *Enhanced Revenue* is defined as additional revenues in excess of federal government funds that can be credited back to the government or applied to DOJ programs as a result of management action on audit recommendations.

**OFFICE OF JUSTICE PROGRAMS
RESPONSE TO THE DRAFT REPORT**



U.S. Department of Justice

Office of Justice Programs

Office of Audit, Assessment, and Management

Washington, D.C. 20531

April 30, 2014

MEMORANDUM TO: David M. Sheeren
Regional Audit Manager
Denver Regional Audit Office
Office of the Inspector General

FROM: */s/*
LeToya A. Johnson
Acting Director

SUBJECT: Response to the Draft Audit Report, *Audit of the Office of Juvenile Justice Delinquency and Prevention Award to Friends First, Inc.*

This memorandum is in reference to your correspondence, dated March 24, 2014, transmitting the above-referenced draft audit report for Friends First, Inc. (Friends First). We consider the subject report resolved and request written acceptance of this action from your office.

The draft report contains **10** recommendations and **\$712,616** in questioned costs, and \$6,685 in enhanced revenue. The following is the Office of Justice Programs' (OJP) analysis of the draft audit report recommendations. For ease of review, the recommendations are restated in bold and are followed by our response.

- 1. We recommend that OJP ensure that Friends First establishes internal controls to ensure compliance with its existing accounting procedures related to approving and signing invoices, and submitting them with a check request form to the Finance Manager.**

OJP agrees with the recommendation. However, in its April 21, 2014 response to the draft audit report, Friends First provided a copy of newly implemented accounting and cash disbursement policies. These revised procedures appear to sufficiently address the recommendation. Therefore, OJP requests closure of the recommendation.

2. **We recommend that OJP ensure that Friends First establishes a documented purchase authorization procedure to provide assurance that grant funds are being used for allowable purposes in accordance with the *OJP Financial Guide*.**

OJP agrees with the recommendation. However, in its April 21, 2014 response to the draft audit report, Friends First provided a copy of newly implemented procedures, which require check requests and purchases exceeding \$3,000 to be approved in writing by the grant manager prior to placing the order. These new procedures appear to sufficiently address the recommendation. Therefore, OJP requests closure of the recommendation.

3. **We recommend that OJP ensure that Friends First establishes appropriate internal controls to separate or further compensate for the purchase-related custodial, recording, and reconciliation duties performed by Friends First's Finance Manager.**

OJP agrees with the recommendation. However, in its April 21, 2014 response to the draft audit report, Friends First provided a copy of newly implemented procedures to strengthen oversight over the disbursement of Federal funds by the Finance Manager, Grant Manager, and the Executive Director. These new procedures appear to sufficiently address the recommendation. Therefore, OJP requests closure of the recommendation.

4. **We recommend that OJP ensure that Friends First establishes appropriate internal controls to separate or further compensate for the overlapping payroll-related duties performed by Friends First's Finance Manager.**

OJP agrees with the recommendation. However, in its April 21, 2014 response to the draft audit report, Friends First provided a copy of newly implemented procedures to strengthen controls and increase oversight for payroll-related duties, by requiring the Executive Director to verify and approve all payroll-related data within two business days of the pay date. These new procedures appear to sufficiently address the recommendation. Therefore, OJP requests closure of the recommendation.

5. **We recommend that OJP remedy \$674,576 in unsupported questioned costs.**

OJP agrees with the recommendation. We will coordinate with Friends First to remedy the \$674,576 in unsupported questioned costs that were charged to grant number 2010-JU-FX-0011.

6. **We recommend that OJP remedy \$38,040 in unallowable questioned costs.**

OJP agrees with the recommendation. We will coordinate with Friends First to remedy the \$38,040 in unallowable questioned costs charged to grant number 2010-JU-FX-0011.

7. **We recommend that OJP credit the grant account for the \$6,685 in program income generated by four conferences occurring from 2010 through 2012.**

OJP agrees with the recommendation. We will coordinate with Friends First to ensure that the \$6,685 in program income, which was generated from conferences that occurred from 2010 through 2012, is properly reported on the Federal Financial Report (FFR) for grant number 2010-JU-FX-0011.

8. **We recommend that OJP ensure that Friends First establishes internal control procedures that allow it to properly account for grant-related program income, and report future program income on its Federal Financial Reports.**

OJP agrees with the recommendation. However, in its April 21, 2014 response to the draft audit report, Friends First provided a copy of newly implemented procedures to ensure that grant-related program income is properly accounted for and accurately reported on its FFRs. These new procedures appear to sufficiently address the recommendation. Therefore, OJP requests closure of the recommendation.

9. **We recommend that OJP ensure that Friends First establishes written subrecipient monitoring procedures to provide assurance that subrecipient activities are conducted in accordance with Federal program and grant requirements, laws, and regulations.**

OJP agrees with the recommendation. However, in its April 21, 2014 response to the draft audit report, Friends First provided a copy of newly implemented procedures to ensure that subrecipients are adequately monitored. These new procedures appear to sufficiently address the recommendation. Therefore, OJP requests closure of the recommendation.

10. **We recommend that OJP ensure Friends First establishes internal controls that accurately record, document, and monitor its training efforts to ensure compliance with award training requirements.**

OJP agrees with the recommendation. However, in its April 21, 2014 response to the draft audit report, Friends First provided a copy of newly implemented procedures to ensure that training efforts are accurately recorded, documented, and monitored to ensure compliance with award training requirements. These new procedures appear to sufficiently address the recommendation. Therefore, OJP requests closure of the recommendation.

We appreciate the opportunity to review and comment on the draft audit report. If you have any questions or require additional information, please contact Jeffery A. Haley, Deputy Director, Audit and Review Division, on (202) 616-2936.

cc: Jeffery A. Haley
Deputy Director, Audit and Review Division
Office of Audit, Assessment, and Management

cc: Robert L. Listenbee
Administrator
Office of Juvenile Justice and Delinquency Prevention

Chyrl Jones
Deputy Administrator
Office of Juvenile Justice and Delinquency Prevention

Amy Callaghan
Special Assistant
Office of Juvenile Justice and Delinquency Prevention

Bernard Williams
Grant Program Specialist
Office of Juvenile Justice and Delinquency Prevention

Leigh A. Benda
Chief Financial Officer

Christal McNeil-Wright
Associate Chief Financial Officer
Grants Financial Management Division
Office of the Chief Financial Officer

Jerry Conty
Assistant Chief Financial Officer
Grants Financial Management Division
Office of the Chief Financial Officer

Lucy Mungle
Manager, Evaluation and Oversight Branch
Grants Financial Management Division
Office of the Chief Financial Officer

Richard P. Theis
Assistant Director, Audit Liaison Group
Internal Review and Evaluation Office
Justice Management Division

OJP Executive Secretariat
Control Number IT20140324163705

FRIENDS FIRST RESPONSE TO THE DRAFT REPORT²³



April 21, 2014

David M. Sheeren
Regional Audit Manager
Denver Regional Audit Office
Office of the Inspector General
U.S. Department of Justice
1120 Lincoln Street, Suite 1500
Denver, CO 80203

Dear Mr. Sheeren,

Thank you so much for having members of your team come to FRIENDS FIRST and conduct an audit of the Office of Justice Programs Grant No. 2010-JU-FX-0011 awarded to Friends First, Inc. As a small to medium sized nonprofit, we are committed to following all grant rules and regulations to the letter. FRIENDS FIRST realizes that there are a few areas where we can improve and/or the OJP regulations are not quite clear. In these cases, FRIENDS FIRST is happy to improve our policies or procedures. It is FRIENDS FIRST's goal to not only operate in total compliance with guidelines, but with excellence in everything that we do.

Over the past three years, FRIENDS FIRST has been very successful in implementing the OJP grant with thousands of students served in five states with quality programming. FRIENDS FIRST is confident that we successfully completed the task assigned. However, as a result of this audit, FRIENDS FIRST realizes that certain procedures or documentation could have been better.

FRIENDS FIRST annually undergoes an A-133 audit and has never had any comments from the conducting auditing company who specializes in non-profits. Therefore, it was especially enlightening and helpful to have the OJP auditors to take a closer look and dig a little deeper to provide some very relevant recommendations. FRIENDS FIRST agrees with the recommendations. We have already made some changes prior to the audit and per the audit and will continue with implementation or any corrections per the final request of the federal office of juvenile justice and delinquency prevention.

Thank you for your time and your support,

Elycia R. Cook
Executive Director
FRIENDS FIRST Inc.
PO Box 270302
Littleton, CO 80127

²³ Attachments to the Friends First, Inc. response were not included in this final report.

FRIENDS FIRST
Responses to Recommendations by the Office of the Inspector General (OIG)
Grant 2010-JU-FX-0011
April 21, 2014

1. **Ensure that FRIENDS FIRST establishes internal controls to ensure compliance with its existing accounting procedures related to approving and signing invoices, and submitting them with a check request form to the Finance Manager:**

RESPONSE: FRIENDS FIRST concurs that our internal controls and cash disbursement policies should ensure compliance with our procedures. Please see Attachment A under CASH DISBURSEMENTS and then under the subheading "approval and payment of invoices".

2. **Ensure that FRIENDS FIRST establishes a documented purchase authorization procedure to provide assurance that grant funds are being used for allowable purposes in accordance with the OJP Financial Guide.**

RESPONSE: FRIENDS FIRST concurs and has now established a policy whereby any purchase over \$3000 must be approved by the grant manager in writing as allowable to be purchased/ordered under their grant. This will happen before placing the order. See Attachment A under CASH DISBURSEMENTS and then under subheading "purchase authorization and purchase orders". Also see attachment B which is our new purchase order form. In addition, all check requests must be approved in writing by the grant manager. The finance manager will verify that any financial guidance such as the OJP Financial Guide will be reviewed by the grant manager.

3. **Ensure that FRIENDS FIRST establishes appropriate internal controls to separate or further compensate for the purchase-related custodial, recording, and reconciliation duties performed by FRIENDS FIRST's Finance Manager**

RESPONSE: FRIENDS FIRST concurs and has established a new internal control around disbursements. While the Finance Manager will still record and pay invoices, the signing of the checks will be completely removed from the finance manager. In addition, the executive director will continue to examine from the online listing, all checks written on a monthly basis and sign off on the bank statement and the bank reconciliation after this is completed. See Attachment A under CASH DISBURSEMENTS and then under subheading "disbursements and checkwriting"

4. **Ensure that FRIENDS FIRST establishes appropriate internal controls to separate or further compensate for the overlapping payroll-related duties performed by FRIENDS FIRST's Finance Manager.**

RESPONSE: FRIENDS FIRST concurs and has installed a new procedure which will involve the Executive Director verifying payroll data and this will be completed within two business days of the paydate. See Attachment A under PAYROLL.

5. **Remedy \$674,576 in unsupported questioned costs.**

RESPONSE: a. regarding the \$670,566 in unsupported payments to sub recipients under their contracts, FRIENDS FIRST recognizes that we asked the sub recipients in their contracts for supporting documentation such as timesheets, but never followed up on this request in the contracts. FRIENDS FIRST does have official, signed contracts with each sub recipient exactly stating the contract amount. Our OJP grant manager, [REDACTED], had a very close relationship with each coordinator at our sub recipient sites and in addition to making semi-annual visits to each site; he monitored the progress and effectiveness of each sub recipient's program. Through this monitoring and the results of their programs, the grant manager and executive director were confident that each sub recipient was in fact fulfilling their duties as required. In addition, the evaluation manager and administrative assistant also regularly monitored paperwork and communicated with sub recipient program coordinators about procedures. This included FRIENDS FIRST receipt of attendance records, fidelity reports, consents and surveys for each of the sub recipient programs on a monthly basis. Questions or problems were discussed regularly via phone calls and email to provide clarity where needed. FRIENDS FIRST is confident that all of the \$670,566 in monthly payments to our sub recipients was in fact legitimate and they all tie exactly to the signed contracts. All the payments do match all of our original contracts signed annually by the sub recipient and the grant manager. FRIENDS FIRST has adopted a new policy for future sub recipients that is attached and will be used for any and all future sub recipients. This involves the sub recipient submitting a detailed invoice of expenses that were expended during that month. This will be due to FRIENDS FIRST by the 10th of the following month and payment will only be issued after it is examined and approved by the appropriate grant manager. At each year end, a detailed ledger will be required to be submitted to FRIENDS FIRST before making any payments for the next year. ALL payments will be on a reimbursement basis. No funds will be paid out in advance. See attachment C: Sub recipient monitoring and sample of sub recipient invoice. See also attachment D for sample sub recipient invoice.

b. \$2,148 in office supplies. FRIENDS FIRST did in fact use estimates that were listed in our approved budget to collect indirect costs (FRIENDS FIRST does not have an indirect rate). These included office supplies, telephone, utilities, equipment rental (copier), etc. We do agree that \$2,148 in excess was collected from OJP versus what was supported as OJP's share of that expense. We would like to point out that of the indirect items collected, office supplies was over collected, but others were under collected for the same time period. In aggregate, we charged OJP LESS than the total amount that should have been their share. The total amount that should be charged to OJP based on their portion of FRIENDS FIRST overall budget over the 33 months is \$106,792 and the amount actually charged was \$97,448. See attachment E and F. Therefore, we would like to ask that this amount of \$2,148 be waived based on the total amount collected from OJP was less than their share of the indirect. If we had adjusted the budgeted amount to actual for every indirect category, we would have been able to charge OJP more than what was collected. In the future, FRIENDS FIRST will adjust all grant estimates for indirect costs to actual to our grants on an annual basis.

c. \$1,862 in miscellaneous unsupported payments. There are 3 unsupported payments and we would like to ask that all these costs be waived. There was \$892 in travel costs for our evaluator for which we could not locate the receipts but we do have the actual invoice submitted by our evaluator which is attachment G and H. (\$636.98 + \$255.)

There was a \$200 charge for a mentor/mentee team building activity (bowling) for our Tennessee state partners for which documentation could not be found. This activity is normal and is used for mentor/mentee team building. Our OJP grant manager, [REDACTED], was at the bowling event.

Also \$770 that FRIENDS FIRST paid to its former OJP Grant Manager to reimburse him for internet and cell phone charges. We also ask this to be waived because this reimbursement was part of his employment contract and he worked from home over 50% of the time as most of the schools he covered were closer to his home than the FRIENDS FIRST office. He also traveled a lot for this grant and his home location was closer to the airports. His responsibilities required him to primarily be located in the field. FRIENDS FIRST has no plans to include this type of reimbursement in any future employment contract without pre-approval by the project officer at the federal agency.

6. Remedy \$38,040 in unallowable questioned costs.

Response: FRIENDS FIRST paid \$28,228 in employer contributions to our employee retirement plan for its OJP employees. Although this fringe benefit was not specified exactly in the original grant budget, we were not required to list every fringe benefit when submitting the budget. This is the description in the approved budget listed as the fringe description "social security, disability, healthcare, dental, eye care, and etcetera". We had absolutely NO correspondence or notification from our project officer that the last "etc" needed to be explained further. Our budget was approved with "etc.", without question. Therefore, we ask OJP to waive this cost because we were not contacted for better explanation of "etc." and also reasonable contribution to a retirement account is common practice among grantees. This is normally included in fringe benefits. This is very good information and we will certainly list every fringe benefit on future grant applications. FRIENDS FIRST also will list all specific costs included in every category in future grant applications. We will no longer use "etc".

FRIENDS FIRST paid \$5,785 in advance payments and travel funds to sub recipients. Under the previous executive director's leadership, FRIENDS FIRST did advance some payments in year one and two; we remedied that at the end of the 2nd year and required only reimbursement with no other advance payments to be allowed. This amount was \$3,980. According to our new sub recipient procedures, no advances will be given for any reason in the future. We request that OJP waive this cost. Since we have the new procedure in place with our new sub recipient guidelines, this will not be an issue in the future. The other items include \$983 in grant funds provided to a FF employee to purchase health insurance. He was reimbursed \$3600 but the actual cost was only \$2,617 so we agree that we should reimburse OJP the difference of \$983. We have already implemented a procedure requiring an actual monthly invoice from this employee to have documentation on the amount paid (which will be actual, not estimated). FRIENDS FIRST also expended \$2,763 on office cleaning expenses which we considered part of rent/repairs and maintenance so we ask OJP to waive this cost also. \$206 was spent at a holiday party in 2010, we have not claimed any other holiday party expenses after we learned that it was not allowed so we ask OJP to waive this cost. Two airline upgrade seating of \$45 and \$31

in tips we also ask OJP to waive. Now that we are aware of the policy, we will not do this again in the future.

7. Credit the grant account for the \$6,685 in program income generated by four conferences occurring from 2010 through 2012.

FRIENDS FIRST holds a very large conference every summer called the STARS NATIONAL CONFERENCE. We usually have around 300 attendees. Many attendees are from our grants and others are from various organizations around the country that have no connection to FRIENDS FIRST. The tuition for this conference is around \$400/attendee. It is a 4-day, 3-night conference held at a major University in Colorado. (Colorado State University or University of Denver). All lodging, food, speakers, and workshops are included in the price. We must set the price about 9 months in advance. If there is an excess of tuition over total costs, FRIENDS FIRST has kept the excess because we had not charged the grants any indirect costs for this conference. We also have a small winter retreat held in December or January, in order to provide midyear training to our program staff, mentors and mentees. This is a much smaller conference. In 2011, total tuition for the summer conference was \$97,885 and total expenses were \$86,881. In 2012, total tuition was 106,322 and total expenses were \$104,802. The tuition we charged to the OJP grant is totally in line with other youth conferences of this size across the nation. This is why we thought it appropriate to charge the tuition to OJP and not make any adjustments to actual. With dates having to be secured at least 9 months in advance, it is difficult to estimate the exact tuition to charge that be equal to our exact expenses. If we sent our mentors and mentees to a similar leadership conference, it would easily be the same price or more and no recovery could be made to an outside organization that would charge tuition. Therefore, we want to request that OJP waive the \$6,685 as OJP's share of our program excess because we have now implemented controls (see attachment A under "accounting for conferences) to state that any future income derived from our conferences will be reported as income and it will returned to the appropriate federal agency.

8. Ensure that FRIENDS FIRST establishes internal control procedures that allow it to properly account for grant-related program income, and report future program income on its Federal Financial Reports.

FRIENDS FIRST agrees with this recommendation and now has a written procedure around program income and the proper recording of the income. See attachment A under "program income"

9. **Ensure that FRIENDS FIRST establishes written sub recipient monitoring procedures to provide assurance that sub recipient activities are conducted in accordance with federal program and grant requirements, laws, and regulations.**

FRIENDS FIRST concurs. See attachment C

10. **Ensure FRIENDS FIRST establishes internal controls that accurately record, document, and monitor its training efforts to ensure compliance with award training requirements.**

FRIENDS FIRST has established the following procedure to improve internal controls surrounding documentation and monitoring of training requirements.

PROCEDURE FOR DOCUMENTATION OF TRAININGS

STARS training requirements will be established by the STARS program manager and confirmed with the grant manager to ensure that grant training requirements will be fulfilled.

- 1) Prior to a training, the trainer will create a Training Agenda (**Attachment I**) of activities to be covered and include the Site, date, length of training (hours), name of trainer and type of training. This will be sent to the sub recipient ahead of time.
- 2) At the training, the trainer will have each participant register or sign in as a record of attendance. (**Attachment J**)
- 3) After the training, Sub recipient will sign off on the Training Agenda indicating that training was completed as outlined, or provide explanation of why training was modified.
- 4) The trainer is responsible for submitting the signed Training Agenda and sign-in/registration sheet to the grant manger.
- 5) For the STARS National Training Conference (SNC) records will be turned in to the grant manager by the registration coordinator.

The Grant manager will oversee the following:

- 1) Each program coordinator (including sub recipients) will receive a Participant Attendance Log (PAL) with instructions on how to record program and training attendance. The PAL must match training attendance records provided by the trainer or SNC registration coordinator.
- 2) Any discrepancies must be corrected and documented on the PAL. See **Attachment K**.
- 3) Grant manager will monitor all local training through similar procedures using the sign-in/registration sheet and PAL.
- 4) Grant manager will maintain all Training Agendas and Sign-in/registration sheets in the grant binder. PAL's will be maintained and monitored online during active programming. At the end of each program year, the PAL's will be printed and maintained in a separate binder for the duration of the grant.

**OFFICE OF THE INSPECTOR GENERAL
ANALYSIS AND SUMMARY OF ACTIONS
NECESSARY TO CLOSE THE REPORT**

The Department of Justice, Office of the Inspector General (OIG) provided a draft of this audit report to the Office of Justice Programs (OJP) and Friends First Inc. (Friends First). OJP's response is incorporated into Appendix III and Friends First's response is incorporated into Appendix IV of this final report. OJP concurred with all ten of the OIG's recommendations. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

Recommendation:

- 1. Ensure that Friends First establishes internal controls to ensure compliance with its existing accounting procedures related to approving and signing invoices, and submitting them with a check request form to the Finance Manager.**

Closed. OJP concurred with our recommendation and agreed with Friends First's corrective action of updating its cash disbursement procedures.

We reviewed Friend's First's updated cash disbursement procedures and determined they require that all invoices need to be accompanied by a check request form signed and approved by a Program/Grant Manager before any payment is issued. The procedures also contained information on what must be included on the check request form and the steps necessary if an invoice is unavailable.

Friends First's corrective action adequately addresses our recommendation and therefore this recommendation is closed.

- 2. Ensure that Friends First establishes a documented purchase authorization procedure to provide assurance that grant funds are being used for allowable purposes in accordance with the *OJP Financial Guide*.**

Closed. OJP concurred with our recommendation and agreed with Friends First's corrective action of updating its cash disbursement procedures.

We reviewed Friend's First's updated cash disbursement procedures and determined that for any planned purchases over \$3,000, a purchase order must be completed and approved. The procedures state that the purchase order will then be attached to a check request, check stub, and invoice when paid. In addition, we reviewed Friends First's new purchase order form and found it was adequate.

Friends First's corrective action adequately addresses our recommendation and therefore this recommendation is closed.

3. Ensure that Friends First establishes appropriate internal controls to separate or further compensate for the purchase-related custodial, recording, and reconciliation duties performed by Friends First's Finance Manager.

Closed. OJP concurred with our recommendation and agreed with Friends First's corrective action of updating its cash disbursement procedures.

We reviewed Friend's First's updated cash disbursement procedures and determined they contained new processes to further separate duties. Specifically, the Finance Manager can no longer access or use the signature stamp. Instead, after the checks are prepared but before they are signed, they will be submitted with all of the backup information to the Executive Director who has the only signing authority in the office. The procedures further state that if the Executive Director is not available, the Operations Manager will use the Executive Director's signature stamp to sign the checks after verifying the documentation, and that the signature stamp is kept by the Operations Manager in a locked drawer. Lastly, the procedures include other practices to separate duties and retain existing compensatory controls, including the Executive Director's comparison of the bank reconciliation to the online bank statements.

Friends First's corrective action adequately addresses our recommendation and therefore this recommendation is closed.

4. Ensure that Friends First establishes appropriate internal controls to separate or further compensate for the overlapping payroll-related duties performed by Friends First's Finance Manager.

Closed. OJP concurred with our recommendation and agreed with Friends First's corrective action of updating its payroll procedures.

We reviewed Friend's First's updated payroll procedures and determined they adjusted existing processes to further compensate for the overlapping payroll-related duties performed by Friends First's Finance Manager. Specifically, the Executive Director must review the payroll disbursement documentation within 5 business days of the monthly pay date.²⁴ This

²⁴ Both Friends First's and OJP's responses indicated that the Executive Director must review the monthly payroll disbursement documentation within *2 business days* of the pay date, instead of *5 business days* as stated in the policy. On June 4, 2014, Friends First's Executive Director informed us that *5 business days* was the correct time-frame.

review allows the potential for payroll discrepancies to be identified in a timely manner.

Friends First's corrective action adequately addresses our recommendation and therefore this recommendation is closed.

5. Remedy \$674,576 in unsupported questioned costs.

Resolved. OJP concurred with our recommendation and stated that it would coordinate with Friends First to remedy the \$674,576 in unsupported questioned costs.

In response to our recommendation, Friends First provided comments on the individual unsupported expenditures.

Unsupported Expenditure No. 1: \$670,566 in payments to subrecipients under contract

On page 35 of this report, Friends First acknowledged that its signed contracts required grant subrecipients provide supporting documentation such as timesheets, but Friends First did not enforce this requirement. However, Friends First insisted that its grant manager worked closely with coordinators at each subrecipient site, made semi-annual visits to each site, monitored the progress and effectiveness of each subrecipient's program and were confident that each subrecipient was in fact fulfilling their duties as required. Friends First also described monthly tasks performed by its evaluation manager and administrative assistant, including the receipt of mentee attendance records, fidelity reports, consents and surveys. Lastly, Friends First explained that it created a new subrecipient monitoring policy that requires future subrecipients submit a monthly detailed invoice of expenditures that will be due to Friends First by the 10th of the following month.

This subpart of the recommendation can be closed when we receive evidence that the \$670,566 in unsupported payments to subrecipients has been appropriately remedied.

Unsupported Expenditure No. 2: \$2,148 in office supplies

On page 35 of this report, Friends First agreed that it charged office supplies to the OJP grant based on estimates instead of actual costs. Friends First explained that while the office supplies may have been overcharged, other

indirect costs were undercharged.²⁵ Friends First also said that “in aggregate, we charged OJP less than the total amount that should have been their share. The total amount that should be charged to OJP based on their portion of Friends First overall budget over the 33 month [audit period] is \$106,792, and the amount actually charged was \$97,448.” Lastly, Friends First asked that the \$2,148 in questioned costs “be waived based on the total amount collected from OJP was less than their share of the indirect. If we had adjusted the budgeted amount to actual for every indirect category, we would have been able to charge OJP more than what was collected.”

We disagree with Friends First’s explanation. Overcharging the OJP grant for office supplies is not counterbalanced by undercharging other separate costs. Both represent accounting issues stemming from the improper use of estimates instead of actual costs. In addition, we disagree that the \$106,792 figure is “the total amount that *should* be charged to OJP...” [our emphasis] because this amount was merely a budgetary estimate and not indicative of actual costs. Lastly, we disagree with Friends First’s conclusion that had it correctly charged actual costs, the OJP grant would have paid a larger share. Our review of Friends First’s accounting records indicated that there was \$40,639 in indirect costs charged to the OJP grant based on estimates, which exceeded the \$34,415 OJP share of actual costs by \$6,224, as shown in Exhibit 4.

**EXHIBIT 4. FRIENDS FIRST’S INDIRECT COSTS
OCTOBER 2010 THROUGH JUNE 2013**

INDIRECT COST²⁶	AMOUNT CHARGED TO OJP GRANT (BASED ON ESTIMATES)	OJP SHARE (BASED ON ACTUAL COSTS)
OFFICE SUPPLIES	\$9,900	\$7,215
EQUIPMENT RENTAL	\$13,200	\$8,180
LIABILITY INSURANCE	\$2,870	\$3,358
WORKERS’ COMP.	\$1,040	\$1,817
POSTAGE	\$2,475	\$2,271
TELEPHONE	\$6,897	\$6,862
UTILITIES	\$4,257	\$4,713
TOTAL	\$40,639	\$34,415

Source: Friends First accounting records

²⁵ Friends First’s indirect costs include office supplies, equipment rental, liability insurance, audit fees, workers’ compensation, postage, rent, phone, and utilities. Although Friends First did not receive OJP funding for the “Indirect Costs” budget category, the aforementioned costs were specifically included in its budget under separate budget categories.

²⁶ Friends First’s accounting records also included as indirect costs: (1) Rent, (2) Audit Fees, and (3) Repairs and Maintenance. However, we did not include these cost types because they were properly charged to the grant using actual costs and are therefore not comparable to the indirect costs charged to the grant based on budgetary estimates.

Therefore, this subpart of the recommendation can be closed when we receive evidence that \$2,148 in unsupported expenditures for office supplies has been appropriately remedied.

Unsupported Expenditure No. 3: \$1,862 in miscellaneous unsupported payments

On pages 35-36 of this report, Friends First requested that the three payments comprising the \$1,862 in miscellaneous unsupported costs be waived. Specifically: (a) for the \$892 in travel costs incurred by a grant subrecipient, Friends First had collected and provided to the OIG invoices for the subrecipient's travel; (b) for the \$200 mentor/mentee bowling trip, Friends First explained this was a team-building activity and although it could not find the supporting documentation, "this activity is normal and is used for mentor/mentee team building"; and (c) for the \$770 in grant funds that Friends First paid to its former Grant Manager to reimburse internet and cell phone charges, Friends First explained that the reimbursement was part of the Grant Manager's employment contract, he worked from home over 50 percent of the time, and traveled a lot. Friends First also said it had no plans to include this type of reimbursement in any future employment contract without pre-approval by the project officer at the federal granting agency.

For the travel costs incurred by a grant subrecipient, the OIG reviewed the invoices for \$892 in travel costs incurred by a grant subrecipient and determined that they were adequate. However, for the mentor/mentee bowling trip and reimbursement for internet and phone charges (items b and c), the OIG would like to clarify that these costs were not questioned based on their reasonableness but because they were not substantiated by supporting documentation such as invoices or receipts. Friends First's response to the draft report did not address this matter for items b and c and therefore we continue to question those costs as unsupported.

This subpart of the recommendation can be closed when we receive evidence that the \$1,862 in miscellaneous unsupported payments has been appropriately remedied.

6. Remedy \$38,040 in unallowable questioned costs.

Resolved. OJP concurred with our recommendation and stated that it would coordinate with Friends First to remedy the \$38,040 in unallowable questioned costs.

In response to our recommendation, Friends First provided the following comments on the individual unallowable expenditures.

Unallowable Expenditure No. 1: \$28,228 in employer contributions to employee retirement plans

On page 36 of this report, Friends First explained that although the employer contributions to its employee retirement plan were not specified in the original grant budget, OJP had not required it to list every fringe benefit when Friends First submitted its budget. Friends First said it had “absolutely no correspondence or notification from our [OJP] project officer that the last ‘etc.’ needed to be explained further.” Lastly, Friends First said in future grant applications it would list all specific costs included in every budget category.

This subpart of the recommendation can be closed when we receive evidence that the \$28,228 in unallowable employer contributions to employee retirement plans has been appropriately remedied.

Unallowable Expenditure No. 2: \$5,785 in advance payments and travel funds paid to subrecipients

On page 36 of this report, Friends First stated that under its previous Executive Director’s leadership it did advance some payments in years one and two, but the matter had since been remedied. Friends First said that according to its new subrecipient monitoring procedures, no advances will be given for any reason in the future.

We reviewed Friends First’s subrecipient monitoring procedures and determined that they require all payments to subrecipients be made on a cost-reimbursement basis.

This subpart of the recommendation can be closed we receive evidence that the \$5,785 in unallowable payments paid to subrecipients has been appropriately remedied.

Unallowable Expenditure No. 3: \$983 in grant funds provided to a Friends First employee to purchase health insurance

On page 36 of this report, Friends First concurred with our recommendation and stated that it has already implemented a procedure requiring an actual monthly invoice documenting the actual amount paid. Friends First also agreed that it should reimburse the OJP grant for the difference of \$983.

This subpart of the recommendation can be closed when we receive evidence that the \$983 in unallowable grant funds provided to a Friends First employee to purchase health insurance has been appropriately remedied.

Unallowable Expenditure No. 4: \$3,045 in miscellaneous expenditures

On pages 36-37 of this report, Friends First requested that the three payments comprising the \$3,045 in miscellaneous unallowable costs be waived. Specifically: (a) for the \$2,763 in office cleaning expenses, Friends First said it was considered part of rent/repairs and maintenance; (b) for the

\$206 spent on meals at a holiday party, Friends First said it has not claimed any other holiday party expenses after learning such claims were unallowable; and (c) for the two airline seating upgrades and tips totaling \$76, Friends First said that now it is aware of the policy restrictions for such costs, it will not do this again in the future.

The OIG disagrees with Friends First's justification for charging cleaning expenses to the grant (item a) because, as stated on page 12 of this report, these costs were not approved in its budget, nor are these costs associated with the facility's rental charges. Although Friends First provided assurances that unallowable purchases such as items b and c will not happen again, further action is necessary to ensure Friends First can identify these and other unallowable costs in the future.

This subpart of the recommendation can be closed when we receive evidence that the \$3,045 in unallowable expenditures has been appropriately remedied.

7. Credit the grant account for the \$6,685 in program income generated by four conferences occurring from 2010 through 2012.

Resolved. OJP concurred with our recommendation and stated that it would coordinate with Friends First to ensure that the \$6,685 in program income, which was generated from conferences that occurred from 2010 through 2012, is properly reported on the Federal Financial Report (FFR) for grant number 2010-JU-FX-0011.

On page 37 of this report, Friends First described two annual conferences that generate program income via attendee tuition and explained that if there was an excess of tuition over conference costs, Friends First kept the excess because it had not charged the grants any indirect costs. Friends First requested that OJP's \$6,685 share of program income be waived because it has since implemented controls stating that any future income derived from our conferences will be reported as income and it will be returned to the appropriate federal agency.

The OIG disagrees that OJP's share of \$6,685 in program income be waived, and notes that Friends First's budget did not include funding for indirect costs. Although Friends First has established new accounting procedures to address future program income, the fact remains that the \$6,685 in program income was not properly allocated to the OJP grant account.

This recommendation can be closed when we receive evidence that the grant account is credited for the \$6,685 in program income generated by four conferences occurring from 2010 through 2012.

8. Ensure that Friends First establishes internal control procedures that allow it to properly account for grant-related program income, and report future program income on its Federal Financial Reports.

Closed. OJP concurred with our recommendation and agreed with Friends First's corrective action of creating procedures to ensure that grant-related program income is properly accounted for and accurately reported on its FFRs.

We reviewed Friend's First's new procedures titled "Accounting for Conferences" and "Accounting for Program Income" which stated that there will be no excess of receipts over expenses and the total expenses will be spread among grants/programs based on the number of participants, after the fact. These procedures also require the reporting of program income on Federal Financial Reports.

Friends First's corrective action adequately addresses our recommendation and therefore this recommendation is closed.

9. Ensure that Friends First establishes written subrecipient monitoring procedures to provide assurance that subrecipient activities are conducted in accordance with federal program and grant requirements, laws, and regulations.

Closed. OJP concurred with our recommendation and agreed with Friends First's corrective action of creating procedures to ensure that subrecipients are adequately monitored.

We reviewed Friend's First's new "Guidelines & Procedures for Monitoring Subrecipients" which requires Friends First's Grant Manager to document progress reports, review invoices and compare expenditures to budgets, request explanations for any unusual or miscellaneous charges invoiced by subrecipients, perform site visits, and provide questionnaires to each subrecipient inquiring if they are subject to an OMB Circular A-133 audit.

Friends First's corrective action adequately addresses our recommendation and therefore this recommendation is closed.

10. Ensure Friends First establishes internal controls that accurately record, document, and monitor its training efforts to ensure compliance with award training requirements.

Closed. OJP concurred with our recommendation and agreed with Friends First's corrective action of creating procedures to ensure training efforts are accurately recorded, documented, and monitored to certify compliance with award training requirements.

We reviewed Friends First's "Procedure for Documentation of Trainings," and determined that it requires the creation of a training agenda to document the activities, site, date, length of training, name of trainer, and type of training. Each participant must sign a record of attendance while at the training and sign the training agenda upon completion. The trainer or registration coordinator is responsible for submitting signed training agendas and records of attendance to the Grant Manager. The procedure also describes Grant Manager oversight responsibilities such as identifying and correcting discrepancies in Participant Attendance Logs, monitoring local trainings, and maintaining all training agendas and records of attendance in a grant binder.

Friends First's corrective action adequately addresses our recommendation and therefore this recommendation is closed.