



**AUDIT OF THE OFFICE OF JUSTICE PROGRAMS
OFFICE OF JUVENILE JUSTICE AND DELINQUENCY
PREVENTION GRANTS AWARDED TO
BIG BROTHERS BIG SISTERS OF AMERICA**

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

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EXECUTIVE SUMMARY

The Department of Justice, Office of the Inspector General, Audit Division, completed an audit of three Office of Justice Programs, Office of Juvenile Justice and Delinquency Prevention grants awarded to the national headquarters of Big Brothers Big Sisters of America (BBBSA) located in Philadelphia, Pennsylvania. The grants reviewed were grant numbers 2009-TY-FX-0047, 2010-JU-FX-0005, and 2011-MU-MU-0017, which totaled \$23,177,286. The grants were provided to support BBBSA's mentoring services to tribal youth, youth with a parent in the military, and other high-risk populations that were considered underserved due to various factors. The primary goal of BBBSA was to provide children facing adversity with enduring, professionally supported relationships that change their lives for the better.

The purpose of our audit was to determine whether the reimbursements claimed for costs under the grants were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grants. We also evaluated program performance to determine whether the goals and objectives of the grants were met, as well as the grant-funded programs' overall accomplishments.

Overall, we determined that BBBSA was in material non-compliance with the majority of the grant requirements we tested. Most significantly, we found that BBBSA's practices for recording and supporting grant-related expenditures were inadequate to safeguard grant funds and ensure compliance with the terms and condition of the grants. We also determined that all BBBSA expenditures were unsupported due to the commingling of funds within BBBSA's general fund account. Finally, we found that BBBSA (1) did not adequately safeguard grant funds; (2) did not adequately monitor subrecipients or require subrecipients to support the grant funds received and expended; (3) charged unsupported and unallowable expenditures to the grant; (4) did not compute indirect costs based on its approved agreement; (5) did not adequately monitor consultants; (6) did not base its drawdown of funds on actual expenditures; (7) did not monitor actual spending against the approved budget; (8) did not properly safeguard accountable property acquired with grant funding; (9) did not prepare Federal Financial Reports based on actual expenditures; and (10) generated

program income which was not properly reported. As a result of these weaknesses, we questioned \$19,462,448 in funding that the grantee has received and recommended the \$3,714,838 in funds not yet disbursed be put to better use.

Based on the findings related to BBBSA, we made 15 recommendations to the Office of Justice Programs, regarding the use of grant funds, including questioned costs and funds to better use. These items are discussed in detail in the Findings and Recommendations section of the report. Our audit objectives, scope, and methodology are discussed in Appendix I. Our Schedule of Dollar-Related Findings is located in Appendix II.

Due to the significant findings and recommendations found during this audit, we also provided the Office of Justice Programs a preliminary briefing on our audit findings. In response to that briefing, the Office of Justice Programs froze the disbursement of all grant funds to BBBSA and notified BBBSA of this restriction.

We discussed the results of our audit with BBBSA officials and have included their comments in the report, as applicable. Additionally, we requested a response to our draft report from BBBSA and OJP, and their responses are appended to this report as Appendix IV and V, respectively. Our analysis of both responses, as well as a summary of actions necessary to close the recommendations can be found in Appendix VI of this report.

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INTRODUCTION

The Department of Justice, Office of the Inspector General, Audit Division, has completed an audit of three grants awarded by the Office of Justice Program's (OJP) Office of Juvenile Justice and Delinquency Prevention (OJJDP) to Big Brothers Big Sisters of America (BBBSA) located in Philadelphia, Pennsylvania. These grants included: (1) grant number 2009-TY-FX-0047, that funded FY 2009 Tribal Youth National Mentoring Programs, (2) grant number 2010-JU-FX-0005, that funded FY 2010 National Mentoring Programs, and (3) grant number 2011-MU-MU-0017, that funded FY 2011 National Mentoring Programs. As shown in Exhibit I, OJP awarded BBBSA a total of \$23,177,286 under the three awards.

EXHIBIT I BBBSA OFFICE OF JUSTICE PROGRAMS AWARDS

AWARD	PROJECT PERIOD START DATE	AWARD END DATE	AWARD AMOUNT
2009-TY-FX-0047	10/1/2009	12/31/2011	\$ 1,867,286
2010-JU-FX-0005	10/1/2010	03/31/2013	10,000,000
2011-MU-MU-0017	10/1/2011	09/30/2013	11,310,000
Total			\$23,177,286

Source: Office of Justice Programs

The purpose of our audit was to determine whether reimbursements claimed for costs under the grants were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grants. We also assessed BBBSA's program performance in meeting grant objectives and overall grant-related accomplishments.

Office of Justice Programs

The Office of Justice Programs (OJP), within the Department of Justice, provides the primary management and oversight of the grants we audited. According to its website, OJP provides innovative leadership to federal, state, local, and tribal justice systems by disseminating state-of-the-art knowledge and practices across America, and providing grants for the implementation of these crime fighting strategies. Because most of the responsibility for crime control and prevention falls to law enforcement officers in states, cities, and neighborhoods, the federal government can be effective in these areas only to the extent that it can enter into partnerships with these officers. Therefore, OJP does not directly carry out law enforcement and

justice activities. Instead, OJP works in partnership with the justice community to identify the most pressing crime-related challenges confronting the justice system and to provide information, training, coordination, and innovative strategies and approaches for addressing these challenges.

Office of Juvenile Justice and Delinquency Prevention

The Office of Juvenile Justice and Delinquency Prevention (OJJDP), within OJP, is responsible for management and oversight of the three grants we audited. OJJDP contributes to the reduction of youth crime and violence through comprehensive and coordinated efforts at the federal, state, and local levels.

OJJDP also works to strengthen the nation's juvenile justice system and supports prevention and early intervention programs that make a difference for young people and their communities. According to its website, OJJDP has long supported mentoring programs, awarding more than \$480 million since 1994 to support juvenile and youth mentoring programs.

Big Brothers Big Sisters of America

Big Brothers Big Sisters of America (BBBSA), headquartered in Philadelphia, Pennsylvania, is an organization formed in 1977 through a merger of Big Brothers Association and Big Sisters International. BBBSA was established to provide leadership, strategic direction, and unified standards of service throughout the national network of affiliate agencies. BBBSA is a non-profit 501(c)(3) organization and each of its affiliate agencies is a separate 501(c)(3) organization.¹ The mission of BBBSA is to provide children facing adversity with strong and enduring professionally supported one-to-one relationships that change their lives for the better.

According to its website, BBBSA operates in almost 370 communities across the United States. Local affiliates work to design and develop programs that are tailored to the needs of their community. Utilizing the network of affiliate agencies, BBBSA matches at-risk youths ("Littles") with adult role models ("Bigs") to provide one-to-one mentoring for children between the ages of 6 and 18. BBBSA operates several special programs to meet the needs of communities facing adversity. These special programs

¹ 501 (c)(3) organizations have been granted tax exempt status by the Internal Revenue Service under 26 U.S.C. 501 (c)(3).

include: African-American mentoring, Hispanic mentoring, Native American mentoring, military children mentoring, and programs that provide adult role models to children coping with parental incarceration.

As part of the relationship between BBBSA and its affiliates, affiliates pay certain fees to BBBSA, including a membership affiliation fee and an Agency Information Management (AIM) system fee.² The membership affiliation fees and AIM fees, as reported on the tax year ending June 30, 2011 tax exempt income tax return, totaled \$3,740,015. We discuss these fees in more detail in the Program Income section of the report.

Recently, BBBSA has gone through some changes to its management team. In June 2012, a new Chief Executive Officer was appointed by the BBBSA Board of Directors (Board). Shortly after the appointment, the BBBSA headquarters staffing level was reduced by 25 percent from 111 to 83. A new executive leadership team, including a Chief Operating Officer and Senior Director of Finance, were also appointed at the end of 2012.

Over the course of our audit we kept BBBSA management apprised of the results of our work. The newly appointed Chief Operating Officer developed an internal audit committee and action plan to address some of the deficiencies we had identified during fieldwork. In discussions with BBBSA senior management, as well as the BBBSA Chairman of the Board, they indicated the organization was committed to addressing and resolving all of the issues identified by our audit. However, we did not assess or review the adequacy of the steps BBBSA was taking to address the issues because the action plan was not fully implemented at the time of our fieldwork.

BBBSA Grants

Since 2004, BBBSA has received 13 grants from OJP totaling \$68,488,039.³ These grants have generally been for two major programs, the Tribal Youth National Mentoring program and the National Mentoring program, which are described below.

² AIM is BBBSA's program management system which allows its network of affiliates to track matches between Bigs and Littles and allows it to conduct case management, youth outcomes, and program evaluation.

³ Appendix III includes a listing of OJP grants awarded to BBBSA since 2004.

Beginning in 2008, BBBSA has received grants under the Tribal Youth National Mentoring program. These grants provided funding for BBBSA to offer mentoring services to tribal youth populations that are underserved due to location, shortage of mentors, emotional or behavioral challenges of the targeted population, or other situations identified by the federally recognized tribes. BBBSA received these grants for 2008, 2009, 2010, and 2011.

Annually, beginning in 2007, BBBSA has received National Mentoring program grants.⁴ These grants were awarded to provide mentoring services to high-risk populations that are underserved due to various factors identified by the community in need of mentoring services. In 2007, BBBSA was 1 of 17 organizations selected to receive non-competitive or “invitational” grants from the Department of Justice. This decision was made by the Assistant Attorney General after the elimination of the previous practice of “earmarking” the recipients of awards by Congress. According to the Assistant Attorney General, the decision to use invitational awards was to ensure the continuing and deserving programs would receive funds.⁵

In 2008, National Mentoring grants were no longer invitational, but instead an open solicitation was announced on OJP’s website soliciting applicants to apply. However the applicant pool was limited to national organizations, defined as those organizations having an active program or programs and active affiliates, chapters, or subgrantees in at least 45 states. All applicants, including BBBSA, were required to submit an application for the grants and, in the event of receiving an award, provide 90 percent of the award received to at least 38 of the states where BBBSA had a presence.

Our Audit Approach

Where possible, we tested compliance with what we considered to be the most important conditions of the grants. Unless otherwise stated in our report, we applied the OJP Financial Guide as our primary criteria during our audit. The OJP Financial Guide serves as a reference manual assisting award recipients in their fiduciary responsibility to safeguard grant funds and ensure funds are used appropriately. In addition, we tested against policies

⁴ The FY 2011 National Mentoring grant award funds included \$3,310,000 in funds that were transferred from the Department of Defense to OJJDP to provide mentoring programs and services to youth with a parent in the military, including a deployed parent.

⁵ U.S. Department of Justice Office of the Inspector General, *Procedures Used by the Office of Juvenile Justice and Delinquency Prevention to Award Discretionary Grants in Fiscal Year 2007*, Audit Report 09-24 (April 2009).

found in applicable Office of Management and Budget and Code of Federal Regulations criteria that we also considered in performing our audit. We tested BBBSA's:

- **Internal control environment** to determine whether the financial accounting system and related internal controls were adequate to safeguard grant funds and ensure compliance with the terms and conditions of the grant.
- **Monitoring of subrecipients** to determine whether BBBSA provided sufficient oversight of its subrecipients.
- **Grant expenditures** to determine whether the costs charges, including personnel, fringe benefits, travel expenditures, consultant payments, and other expenditures, to the grants were allowable and supported.
- **Indirect costs** to ensure that charges paid for with grant funding complied with BBBSA's indirect cost agreement.
- **Drawdowns (requests for grant funding)** to determine whether BBBSA's requests for funding were adequately supported.
- **Budget management and control** to determine the overall acceptability of budgeted costs by identifying any budget deviations between the amounts authorized in the OJP grant budget and the actual costs incurred for each budget category.
- **Accountable property** to determine BBBSA's procedures for controlling accountable property.
- **Reporting** to determine if the required periodic Federal Financial Reports and Progress Reports were submitted on time and accurately reflect grant activity.⁶
- **Program performance and accomplishments** to determine whether BBBSA achieved the grant's objectives and to assess performance and grant accomplishments.

⁶ In October 2009, the financial reporting form was changed from the Financial Status Report to the Federal Financial Report. Because most of the forms we reviewed were Federal Financial Reports, that is how we refer to them in this report.

When applicable in our grant audits, we also test for compliance in the areas of matching funds and program income. For the grant awards to BBBSA, we determined that matching funds were not required and were told the grant programs generated no program income.

FINDINGS AND RECOMMENDATIONS

COMPLIANCE WITH ESSENTIAL GRANT REQUIREMENTS

We determined that all BBBSA expenditures were unsupported due to commingling of funds and that BBBSA was in material non-compliance with the essential grant requirements in the areas we tested. Specifically, we found that BBBSA (1) did not adequately safeguard grant funds; (2) did not adequately monitor subrecipients or require subrecipients to support the grant funds received and expended; (3) charged unsupported and unallowable expenditures to the grant; (4) did not accurately compute indirect costs; (5) did not adequately monitor consultants; (6) did not base its drawdown of funds on actual expenditures; (7) did not monitor actual spending against approved budgets; (8) did not properly safeguard accountable property acquired with grant funding; (9) did not prepare Federal Financial Reports based on actual expenditures; and (10) generated program income which was not properly reported. As a result of these weaknesses, we questioned \$19,462,448 in funding that BBBSA received and recommend the remaining grant funds, totaling \$3,714,838, not yet disbursed be put to better use. These amounts represent the total award amount for the three grants we audited. The conditions for our findings, including the underlying causes and potential effects, are further discussed in the body of this report.⁷

Overview

In August 2012, we initiated an audit of three grants provided by OJP to BBBSA totaling \$23,177,286. Following our routine audit process, we requested summary and detailed accounting records for all expenditures charged to the grant. In response to our request, and after repeated attempts to obtain the information, BBBSA provided accounting system reports that included journal entries summarizing what it stated to be a collection of grant-related transactions. We asked BBBSA to identify the

⁷ The Inspector General Act of 1978, as amended, contains our reporting requirements for questioned costs and funds put to better use. However, not all findings are dollar-related. See Appendix II, for a breakdown of our dollar-related findings and for the definition of questioned costs and funds to better use.

underlying transactions associated with each of the summary entries, but the accounting staff was unable to use its accounting system to provide that information. Instead, BBBSA provided spreadsheets that we found were based on budgets, included miscalculations, and did not tie back to the summary journal entries previously provided.

When asked whether the grant-related transactions could be identified in the accounting system specifically, BBBSA finance staff acknowledged that it had not been using its accounting system to track grant activity. Instead, spreadsheets were maintained outside of the accounting system and were the primary source of transactions related to the OJP grants we audited. Additionally, we found that the OJP grants were commingled in the same operating account in BBBSA's accounting system with other funding sources, including other restricted funds.

The difficulty in producing a listing of grant-related transactions was discussed with BBBSA's accounting staff, who acknowledged the issue and explained that the difficulty was due to a recent reduction in staff combined with the timing of our audit, as external auditors were scheduled to perform BBBSA's annual financial audit.

Due to BBBSA's continued inability to produce an accounting system report of detailed grant-related transactions, we suspended the audit and issued a warning letter to the agency on September 18, 2012. The warning letter informed BBBSA that if it was unable to identify the specific transactions related to the three grants we were auditing within 30 days, we would issue a report questioning all funds disbursed for each award. Within 30 days of the warning letter, BBBSA provided a manually prepared listing, rather than a report from its accounting system, of what it stated were grant-related transactions. At this point, our audit work resumed and was completed in February 2013. We discuss the assessment of the manually prepared listing of expenditures further in the Internal Control Environment section and throughout the report.

Internal Control Environment

While our audit did not assess BBBSA's overall system of internal controls, we did review certain internal controls of BBBSA's financial management system specific to the administration of the grant funds during the period under review. Specifically, we determined that BBBSA did not have adequate written internal control procedures to govern the use of federal funds and did not have adequate processes in place to ensure the safeguarding and segregation of federal funds from other sources. These

internal control deficiencies are discussed in greater detail below and warrant corrective action.

We reviewed BBBSA's Single Audit Report and OJP Desk Review Reports to assess the organization's risk of non-compliance with laws, regulations, guidelines, and the terms and conditions of the grants. We also interviewed management staff from the organization, reviewed financial management policies, performed testing when possible, and reviewed financial and performance reporting activities to further assess the risk. Our review of the Single Audit and OJP Desk Reviews are discussed below.

Financial Management System

We found BBBSA's financial management system did not have adequate controls in place to safeguard grant funds. Most significantly, we determined the practices for recording and supporting grant-related expenditures were inadequate to ensure compliance with the terms and conditions of the grants. Specifically, we found that BBBSA grant-related expenditures were not segregated from funds from other sources. As a result, BBBSA's accounting practices prevented it from producing a reliable, accurate, and supportable representation of how grant funding was used. Without this, grant funding was not adequately safeguarded to ensure compliance with the terms and conditions of the grants. In addition, the potential existed that grant funds specifically received for one project were used to support other projects. Further, if grantees are not properly safeguarding grant funds, there is a potential for fraud, waste, and abuse.

According to the OJP Financial Guide (Financial Guide), award recipients are responsible for establishing and maintaining an adequate system of accounting and internal controls to account accurately for funds awarded to them. The Financial Guide further states that an adequate accounting system for grant recipients must be able to separately track expenditures for grant awards. In addition, award recipients must provide adequate fund accountability for each project it has been awarded and the financial management system should require recipients to support accounting records with source documentation.

We found that BBBSA did not properly segregate grant-related expenditures to ensure that funds specifically received for one project were not used to support another project or other activities. BBBSA commingled grant-related expenditures in its operating account. BBBSA finance department staff were unaware that grant-related transactions were required to be tracked separately for each grant award. In addition, BBBSA's financial management policies and procedures did not require

sufficient oversight of its staff to ensure grant-related expenditures were separately tracked. BBBSA did not have an internal control system in place to safeguard funds and ensure that grant funds were used solely for authorized purposes. Instead, all transactions were commingled in the BBBSA operating account with other funding sources.

Summary Journal Entries

We found that grant-related expenditures were not expensed to an appropriate fund account at the time a transaction occurred. Rather, BBBSA made after-the-fact summary journal entries to grant fund account general ledgers based on what we found to be inaccurate spreadsheets. The summary journal entries we reviewed did not preserve the transaction history that comprised the entry. The majority of entries were based on the OJP-approved budget as opposed to the actual costs of the transactions. As a result, we were unable to determine the universe of transactions for testing because the summary general ledger entries were not adequately memorialized and were not based on actual expenditures. As a result, we discontinued our audit until BBBSA provided a manual listing of grant-related transactions.

Manual Listings. When we were provided the manual listing of transactions, we asked BBBSA for the methodology utilized to create the manual listing and assessed the reliability of the data based on BBBSA's methodology. We found that the majority of the amounts represented by these manual listings were based on budget estimates for personnel and subrecipient payments. The remaining amounts identified actual transactions associated with expenses, but these were based on the after-the-fact recollection of the BBBSA Finance Director and were not memorialized as grant-related at the time of the expenditure.

As an example, the BBBSA Finance Director told us that the personnel and fringe benefit amounts on the manual listings were based on the OJP-approved budget. Specifically, the total approved budget amount was divided by the number of months for the grant funded program, rather than the actual costs for personnel and fringe benefits. In addition, we found that the manual listing included salary and wages claimed for two individuals who were actually paid through accounts payable. As a result, we determined that the budgeted costs associated with the salary and wages cost category were not reliable for testing based on the methodology used to create the listing.

We also assessed the reliability for the other cost categories included in the manual listing associated with the grants, including subrecipient

payments, consultant payments, travel expenditures, and indirect costs. The BBBSA Finance Director told us that the subrecipient payments were based on the total subaward divided evenly by the length of the subaward period; the payments are not based on actual subrecipient expenses. We determined that this was not a reasonable methodology for charging subrecipient payments to the grant because of the requirement that grant payments be based on actual expenditures.

The BBBSA Finance Director told us that for consultants, he identified the transactions after the expense was incurred by associating or recalling that the consultant was grant-related based on the consultant name. The consultants were not memorialized in the accounting system as grant-related at the time of the transaction. We determined that this was not a reliable methodology for expensing consultant payments to the grants, especially given the concurrent OJP grants. For travel related expenditures, because all BBBSA transactions were in one operating account, BBBSA was unable to reliably identify grant-related transactions after the fact. The BBBSA Finance Director, on more than one occasion, acknowledged that this methodology was prone to error. During a cursory review of the listing of travel-related expenditures identified as grant-related by BBBSA, we noted at least one travel and related expenses report, comprised of 19 individual transactions totaling \$1,694, was charged to more than one grant. In addition, we reviewed the underlying support that was provided by BBBSA for the grant-related charges and found that the support did not reliably identify the award to which the travel was related. As a result, the BBBSA identified travel expenditures were not reliable.

During interviews with BBBSA management officials, we discussed the lack of adequate internal controls in place to safeguard funds and assure grant funds are used solely for authorized purposes. We noted that grant-related transactions were commingled in BBBSA's operating fund, including other Department of Justice grants that were not included in the scope of this audit. We were told by BBBSA management that the commingling was pervasive throughout BBBSA's restricted funding sources and not limited to grant funds.

We recommend that OJP ensure that BBBSA establishes appropriate internal controls that include the design and implementation of policies and procedures to ensure that the financial management system provides for adequate recording and safeguarding of grant-related activities and ensure that staff are adequately trained and supervised in the use of the system. In addition, we recommend that OJP remedy the \$19,462,448 in grant fund drawdowns, as of February 2013, that are unsupported due to commingling and put \$3,714,838 in non-drawn down funds to better use.

Previous Single Audit and OJP Desk Reviews

Single Audit Review

According to OMB Circular A-133, non-federal entities that expend \$500,000 or more in federal awards in a year shall have a Single Audit conducted. We reviewed BBBSA's most recent Single Audit for the FY ending June 30, 2011. We found that the independent auditors had issued an unqualified opinion without noting any material internal control weaknesses, deficiencies, or findings directly related to Department of Justice grants.

OJP Desk Reviews

An OJP desk review, or desk monitoring, consists of reviewing grant files to ensure they are current, accurate, and complete. We noted that OJP Program Managers responsible for grant awards 2009-TY-FX-0047 and 2010-JU-FX-0005 had performed desk reviews in September 2010, September 2011, and June 2012. All three desk review reports stated that BBBSA was not a high-risk grantee and a low priority for monitoring. None of the desk reports noted any financial or progress compliance exceptions.

In performing our audit work, we review Single Audits and Desk Reviews to determine whether any issues have already been identified within an agency's internal controls, as both reviews would contain such issues if found. However, in this instance, both reviews contained no findings and, as a result, we did not modify our audit based on the reviews. However, during the course of our audit, we found significant internal control deficiencies and ensured our audit scope was adjusted appropriately.

Subrecipient Monitoring

We determined BBBSA failed to provide adequate oversight of its subrecipients. This included failure to assess subrecipient financial management systems, failure to obtain budgets on which grant funds would be spent, and no assessment of how the grant funds were spent. As a result, BBBSA was unable to demonstrate that its subrecipients used grant funding as intended.

As shown in the Exhibit II below, we determined that from the \$23,177,286 BBBSA was awarded by OJP for the three grants we audited, BBBSA budgeted \$19,164,548, or about 83 percent, of this funding for subaward funding to affiliates. Although these affiliates carry the Big

Brothers Big Sisters name, they are separate and distinct non-profit organizations that are operated independently from BBBSA.⁸

**EXHIBIT II
BBBSA BUDGETED SUBAWARD AMOUNTS**

Grant	Budgeted Subaward Amount	Percentage of Total Grant Budget
2009-TY-FX-0047	\$ 1,316,550	71%
2010-JU-FX-0005	8,000,000	80%
2011-MU-MU-0017	9,847,998	87%
Total	\$19,164,548	83%

Source: GMS, BBBSA budgets

As a prime recipient of OJP grant funding, BBBSA was required to ensure that its subrecipients, such as the Big Brothers Big Sisters affiliates, spent grant funding in accordance with the program and grant requirements, laws, and regulations. Specifically, the Financial Guide requires that grantees have written policies and procedures for subrecipient monitoring. The Financial Guide also includes best practices that recipients may consider incorporating in their subrecipient monitoring. These best practices include pre-award procedures such as requiring subrecipients to submit detailed performance plans with integrated budget line items.

In addition, the Financial Guide suggests using monitoring activities during the life of the subaward such as requiring subrecipients to submit monthly financial and performance reports and site visits to examine records and observe operations. When site visits are not conducted, OJP suggests inspecting documents that may include timesheets, invoices, contracts, and ledgers that support monthly financial reports submitted by the subrecipient. The Financial Guide also requires grantees to develop procedures to ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipients' fiscal year provide a complete audit within 9 months after its year-end. Additionally, recipients need to evaluate the impact of subrecipient activities on the recipient's ability to comply with applicable Federal regulations and ensure that the subrecipient takes timely and appropriate corrective action on audit findings.

⁸ According to the Financial Guide, subawards, also known as subcontracts or subgrants, refer to the award of financial assistance in the form of money (or property in lieu of money) made by an OJP grantee under an OJP grant to an eligible subrecipient or by a subrecipient to a lower-tier subrecipient.

BBBSA required its affiliates to submit a financial audit within 60 days of the completion of an affiliate's fiscal year. However, BBBSA told us it did not have a robust system to ensure that subrecipients fulfilled the corrective actions noted in the audits that were performed. In response to our bringing this issue to BBBSA's attention, BBBSA management stated that it intended to implement strategies to ensure corrective action on all affiliate audit findings, however, these strategies were not implemented prior to the close of our fieldwork and we were not able to review any actions taken.

To evaluate BBBSA's subrecipient monitoring, we interviewed BBBSA officials and reviewed related documentation. BBBSA officials told us that there were no written policies and procedures in place for the monitoring of subrecipients. Additionally, BBBSA told us that they did not have OJP suggested pre-award practices in place for grant subrecipients. Specifically, as required by the Financial Guide, we found that BBBSA failed to evaluate subrecipient financial management systems and did not require subrecipients to provide budgets for anticipated grant-related expenditures. As no assessment of subrecipients' financial management systems was conducted, BBBSA could not provide assurance that the grant funds that were passed through to affiliates were adequately tracked and safeguarded.

In addition, BBBSA did not provide funding to its subrecipients based on specific projected costs through proposed budgets. Instead, subrecipients were required to provide BBBSA with a proposed number of matches.⁹ BBBSA then based each subrecipient award on the number of matches multiplied by a cost-per-match. For example, in the 2011 grant, BBBSA used a \$1,750 cost-per-match.¹⁰ BBBSA would then take the total award amount for a subrecipient, divide it by the number of months in the grant period, and provide an equal monthly payment to the subrecipient each month. The payments to the subrecipients were made each month without any assurance from the subrecipient that such matches were actually made.

Throughout the award period, BBBSA did not request any detailed financial information to be submitted by the subrecipient and did not request any timesheets, invoices, or ledgers to support the payments it made to any subrecipient. The conditions for subrecipients to receive a monthly payment

⁹ A match is defined by BBBSA as a one-to-one relationship between a volunteer and a child with the expectation that they will meet regularly for a significant amount of time in order to reach positive youth development outcomes.

¹⁰ BBBSA used \$1,750 per match as an average cost for servicing high-risk youth and the amount was used by all subrecipients, regardless of location.

included acknowledging receipt of prior month funds, reporting monthly revenue, and being up-to-date in paying affiliate fees to BBBSA. As a result, subrecipients may have received grant funds without performing any grant-related activities as BBBSA did nothing to evaluate what grant funds were being used for by subrecipients.

When grantees fail to properly monitor subrecipient expenditures, OJP funds are at risk for fraud, waste, and abuse. By failing to require subrecipients to submit budgets and detailed expenditure documentation, BBBSA cannot be sure that funds are being spent as intended. In addition, by paying subrecipients on an award budget basis, BBBSA is not ensuring that it minimizes the time elapsing between the transfer of funds from BBBSA and disbursement for grant eligible expenditures. When recipients fail to monitor subrecipient timing of funding, the Federal government is at risk for incurring unnecessary lost interest receipts.

In discussing this finding during our audit, a BBBSA official told us that subrecipients were believed to use grant funds to cover costs associated with salaries, fringe benefits, grant-related travel, supplies (office, program-specific, and printing), and office equipment for new hires, if needed. However, because BBBSA did not monitor how subrecipients spent funds, we found all payments made to the subrecipients to be unsupported. During our fieldwork, this amounted to \$12,624,008 representing the amount provided to BBBSA's subrecipients from the initiation of the grants through June 27, 2012, the date of the documentation we used in our testing. As a result, we recommend that OJP remedy the \$12,624,008 in payments BBBSA awarded to subrecipients as unsupported. In addition, we recommend that OJP ensure BBBSA implement policies and procedures for subrecipient monitoring and document the policies in writing.

Grant Expenditures

Where possible, we reviewed grant expenditures to determine if costs charged to the grants were allowable, supported, and properly allocated in compliance with grant requirements. To determine if expenditures were supported, we reviewed invoices, receipts, wire transfer records, and travel expense reports.

As mentioned in our Internal Control section, due to the accounting system weaknesses, we were provided with a manually created listing of what BBBSA asserted to be grant-related expenditures rather than an accounting system report. We asked BBBSA's Finance Director the methodology he used to create the listing and sampled transactions from the manual listing to determine the reliability of the listing. BBBSA's grant

expenditures consisted of (1) disbursements made to subrecipients in support of mentoring program activities, (2) personnel and fringe benefit costs related to the administration of the grant program, (3) disbursements to consultants in support of the grant program, and (4) staff travel-related expenditures. Disbursements made to subrecipients were addressed previously in the Subrecipient Monitoring section and therefore we do not discuss it in this section.

Personnel and Fringe Benefit Expenditures

BBBSA provided us with manually prepared listings of grant-related expenditures that included salary totaling \$1,602,336 and fringe benefits totaling \$406,069. BBBSA's listing of grant-related personnel expenditures included monthly amounts of salary and fringe benefits. We reviewed the methodology used to prepare the listing of personnel and fringe benefit expenditures and determined the related expenditures were based on the OJP approved budgets, not on actual documented payroll expenditures. BBBSA calculated the amount charged to the grant by using the position and salary rates from the related grant budget rather than actual salary and fringe benefit amounts. As a result, we determined the transactions provided by BBBSA reflecting salary and fringe benefit expenditures were not reliable for testing. During our audit, the BBBSA Finance Director told us that personnel and fringe benefits were charged to the grants based on the OJP-approved budgets divided by the timeframe, the number of months, of the associated grant. Because the BBBSA Finance Director claimed charges on a monthly budget basis and BBBSA's payroll was done on a biweekly basis, the expenditures could not be traced from budgeted cost to actual cost.

The Office of Management and Budget Cost Circular A-122, "Cost Principles for Non-Profit Organizations," requires charges to awards for salaries and wages to be based on documented payrolls approved by a responsible official of the organization. By charging grants based on the OJP-approved budget rather than documented payrolls, BBBSA failed to ensure that funds supported grant-related activity.

In October 2012, BBBSA told us that it was in the process of implementing an online allocated timesheet system as part of the current payroll system, and that the new allocated timesheet would require staff to enter the hours worked on a particular project on a biweekly basis. In addition, the new automated timesheet was to be reviewed by supervisors to ensure that employees are accurately accounting for grant-related activities. Because the system was not fully implemented at the time of our fieldwork, we could not determine whether the new system met the requirements of

the Financial Guide. In addition, a BBBSA official who was working to ensure grant-related employees were in fact working on such activities, stated she had to inform some employees they were being paid with grant funds, and therefore, need to keep track of the time spent on grant related activities.

BBBSA officials told us that supervisors maintained an allocation spreadsheet to document the time and effort employees spent on grant-related activities. We reviewed BBBSA's allocation spreadsheet and found that certain Financial Guide criteria were not being met. Specifically, the allocation spreadsheet did not account for the total activity for which each employee was compensated, was not signed by the employee, and there was no evidence that the spreadsheet was reviewed or approved by a supervisory official. In addition, the BBBSA Finance Director told us that he did not use the allocation spreadsheets to identify actual costs to the grant for personnel, but rather the spreadsheets were used by supervisors to monitor staff. As explained previously, personnel charges to the grant were based on budget estimates.

Periodic Certifications

BBBSA, in its approved grant budgets, was specific about the staff percentage of time to be spent on grant-related tasks. BBBSA identified two employees that were to spend 100 percent of their time working on grant-related activities. BBBSA told us it did not require employees working 100 percent of their time on a single award to complete periodic certifications of work.

According to the Financial Guide, grantee employees working solely on a single Federal award must support their salaries by completing periodic certifications. The certification must be prepared at least semi-annually and be signed by the employee and a supervisory official having firsthand knowledge of the employee's work. A BBBSA official told us that the two employees working solely on a single grant had not completed periodic certifications.

Position Not Authorized in Budget

BBBSA identified the Associate Director of Native American Mentoring on its listing of personnel costs associated with grant award 2009-TY-FX-0047; however, this position was not included in the OJP approved budget. The Financial Guide states that a grant adjustment notice must be submitted when making changes to the staff with primary responsibility for implementation of an award.

The BBBSA Finance Director was unaware that a comparison to actual activity spent on grant-related activities was required. By failing to compare actual time spent on grant-related activity, BBBSA could not demonstrate that the amount charged to the grants could be supported by grant-related activities. Our audit identified unsupported personnel questioned cost expenditures for all three grants. In addition, because the calculation of fringe benefit expenditures are based directly on personnel expenditures as either a percentage or fixed amount, we determined fringe benefit expenditures were not adequately supported.

**EXHIBIT III
SUMMARY OF PERSONNEL EXPENDITURES
AND FRINGE BENEFIT COSTS CHARGED TO THE GRANTS**

Grant Award Number	Personnel Expenditures	Fringe Benefits
2009-TY-FX-0047	\$ 326,730	\$ 81,682
2010-JU-FX-0005	939,180	238,833
2011-MU-MU-0017	336,426	85,554
Total Questioned Costs:	\$1,602,336	\$406,069

Source: Big Brothers Big Sisters of America

Consequently, we questioned \$1,602,336 in personnel expenditures and \$406,069 in fringe benefits as unsupported for the three grants. In addition, we questioned \$37,017 as unallowable due to the unapproved Associate Director of Native American Mentoring position. As a result, we recommend that OJP ensures BBBSA implements and adheres to policies and procedures that ensure personnel expenditures paid with grant funding are documented as required by the Financial Guide, and BBBSA implements time and effort tracking procedures that ensure employees document time spent on grant-related activities and document the procedures in writing. We also recommend that BBBSA implement policies and procedures that ensure employees paid with grant funds are identified on approved grant budgets.

Travel Expenditures

BBBSA did not use its accounting system to track expenditures and instead used summary journal entries for cost categories, including travel expenditures. BBBSA provided us a manually created spreadsheet of grant-related travel expenditures and, according to the spreadsheet, BBBSA had 218 travel expenditures totaling \$196,059 for the 3 grants we audited. However, according to the originally provided summary journal entries, travel expenditures BBBSA claimed for reimbursements were \$186,193. The

BBBSA Finance Director explained that the difference between the two amounts was due to errors in assigning travel expenses to the grants.

The BBBSA Finance Director stated his methodology for identifying grant-related travel expenditures included an after-the-fact recollection, on a monthly basis, to associate a travel expense with OJP grant funding. The BBBSA Finance Director acknowledged his methodology was prone to error because he did not memorialize travel expenditure documentation as related to a specific grant at the time the expenditure was incurred. At the time of our fieldwork, BBBSA officials were planning to begin expensing grant-related travel to different grant-related fund accounts. However, this process had not yet been implemented.

We sampled travel expenditures from BBBSA's manually created listing of grant-related travel expenditures and noted that there was no supporting documentation to identify it as related to a specific grant. Since all BBBSA transactions were in one operating account and BBBSA did not memorialize supporting documentation to a specific award, BBBSA was unable to reliably identify the grant-related transactions after the fact. Because BBBSA had numerous concurrent OJP grants and failed to adequately document grant-related travel to a specific OJP grant, BBBSA could not demonstrate that costs claimed under one OJP grant were not also claimed under other sources.

In examining BBBSA travel expenditures that we were told were associated with grants, we found many of the travel expenditures were flawed. For example, we found transactions that were not grant related, transactions that BBBSA could not support, supply transactions that were categorized as travel expenses, and transaction amounts that were rounded. Of particular concern was the fact that the travel receipts provided were generally at a summary level, with no detailed information regarding the associated transactions. For example, a restaurant receipt would show the total charge with no indication of what was purchased or the number of diners. We also identified at least one example of a travel-related transaction that was charged to two OJP grants. In addition, we found an instance of first class airfare for a BBBSA Board Member to travel to Washington DC to attend Congressional meetings paid with grant funds.

Travel expenditures were not contemporaneously identified and memorialized as grant-related at the time the BBBSA Finance Director recorded the transactions. Because the supporting documentation provided did not establish a connection between a charge and a specific grant, we could not determine that grant funding was appropriately used for the travel expenditures, or that they were for allowable costs. As a result, we

determined the travel expenditures associated with the grants were unreliable and we were unable to test the transactions. As a result, we recommend that OJP remedy the \$196,059 in unallowable and unsupported travel expenditures.

Consultant Payments

In each award application, BBBSA included a budget narrative for OJP approval that identified consultants to be paid with grant funds. We reviewed the manually prepared listing of transactions and identified 74 consultant payments in total for the three grants we audited. The BBBSA Finance Director stated his methodology for identifying grant-related consultant payments included a monthly review of the BBBSA operating account and identifying consultant payments as grant-related based on the name of the consultant.

While we determined this methodology was flawed and prone to error, we determined it was reasonable to test consultant payments because the underlying contracts specified deliverables that could be associated with approved grant-related activities. Those activities included outcomes being pursued in the military mentoring, Juvenile Justice Initiative, and Tribal Youth Mentoring programs. However, consultant expenditures were commingled with expenditures from other funding sources.

We reviewed the consultant expenses and the associated contracts to determine compliance with OJP requirements. A BBBSA official explained that consultants were identified and selected by referral and, in other instances, the official asked for recommendations from existing consultants. When the BBBSA official identified a potential consultant, the consultant was asked if grant-related work would be performed for the federal rate of \$450 per day. Consultants willing to work for the \$450 per day amount were provided a contract and placed into a pool of consultants.

Although the Financial Guide requires approval for rates exceeding \$450 per day, the Financial Guide also states that the \$450 per day rate should not be used for all consultants. Instead, consultant rates should be developed and reviewed on a case-by-case basis and must be reasonable and allowable in accordance with OMB cost principles. A BBBSA official responsible for procuring consultant services under the grant awards was not aware of the Financial Guide requirements and had explained that as long as he did not exceed the federal rate of \$450 per day it was believed to meet grant criteria.

We asked whether BBBSA had a formal policy in place for the selection and monitoring of consultants and were told that BBBSA had no formal policy in place to select or monitor consultants. However a BBBSA official stated that it works closely with those contracted to do work. We consider this to be minimally adequate and, as a better practice, BBBSA should implement procedures to periodically evaluate consultants and maintain documentation of any concerns.

Without any meaningful negotiation to ensure the lowest possible rates were paid, grant funding is subject to fraud, waste, and abuse. We recommend that OJP remedy the \$221,182 in consultant costs that were unallowable due to BBBSA's failure to ensure that reasonable rates were established on a case-by-case basis. In addition, we recommend BBBSA clearly document and maintain the analysis, negotiation, justification, and monitoring for each consultant and document the policies and procedures.

While we questioned all consultant costs due to BBBSA's failure to ensure reasonable rates, as discussed below, we noted two separate consultants with costs that were either unallowable or unsupported, or both, based on a specific additional criteria.

Grant Award 2009-TY-FX-0047 Consultant Payments

In the 2009-TY-FX-0047 grant budget, OJP approved the use of consultants to support BBBSA's Native American mentoring initiative. BBBSA used grant funding for one consultant to support its Native American mentoring initiative. The consultant was paid a rate of \$3,875 per month. We reviewed invoices for work completed by the consultant and could not determine the time spent working on grant-related activities.

According to the OJP Financial Guide, BBBSA must seek approval for consultant rates in excess of \$450 per day or \$56.25 per hour. In addition, grantees are required to retain time and effort reports for consultants. We attempted to determine a daily or hourly rate by reviewing the invoices for time and effort. We asked a BBBSA official how the \$3,875 per month was determined and the official was unable to provide a response.

Without requiring time and effort reports, we could not determine what daily or hourly rate the consultant was paid and, therefore, could not determine if the consultant was paid in excess of \$450 per day or \$56.25 per hour. As a result, we consider the \$19,375 payment to the Native American consultant unsupported because there were no time and effort reports to support the rate paid to the consultant. In addition, we questioned \$11,625 in costs as unsupported because there was no supporting documentation to

support grant-related activities. As a result, we recommend OJP remedy \$19,375 and \$11,625 in unsupported expenditures for the Native American mentoring initiative consultant.

Grant Award 2010-JU-FX-0005 Consultant Payments

In the 2010-JU-FX-0005 grant budget, OJP approved the use of a consultant to assist with the development of BBBSA's Agency Information Management (AIM) system. The consultant was hired through a non-competitive process and paid a rate of \$100 per hour.

According to the Financial Guide, all consultants who have been hired without a competitive bidding process are subject to the \$450 per day, or \$56.25 per hour, maximum consultant rate threshold. When the rate exceeds that limit, a written prior approval is required from OJP and prior approval requests require additional justification.

We determined that the AIM consultant was paid \$100 an hour, which was \$43.75 per hour over the allowable hourly rate, and BBBSA did not request prior approval or provide additional justification for the \$100 per hour rate. BBBSA identified the consultant as sole-sourced and did not provide evidence that the AIM consultant was procured through fair and open competition.

Because BBBSA exceeded the maximum consultant rate without negotiating the contract through competition and did not receive prior written approval from OJP to exceed the rate, we consider the total \$79,000 paid to the AIM consultant as unallowable. As a result, we recommend OJP remedy \$79,000 in unallowable costs due to a failure to obtain prior approval and provide justification for the \$100 per hour rate.

The following Exhibit summarizes the questioned costs associated with the consultant payments. We question all of the consultant costs for the three grants due to the overarching failure of BBBSA to establish the consultant rates on a case by case basis. In addition, the Native American and AIM consultant costs are further questioned due to BBBSA's failure to meet additional OJP criteria with respect to consultants.

**EXHIBIT IV
SUMMARY OF QUESTIONED COSTS¹¹**

OJP Criteria	OIG Reviewed Grant Numbers	Questioned Costs	
		Amount	Type
Failure to Establish Consultant Rates on Case-by-Case Basis	2009-TY-FX-0047	\$19,375	Unallowable
	2010-JU-FX-0005	\$154,272	
	2011-MU-MU-0017	\$47,535	
Failure to Retain Time and Effort Reports	2009-TY-FX-0047 Native American Consultant	\$19,375*	Unsupported
No Supporting Documentation to Support Grant Related Activities		\$11,625*	Unsupported
Consultant Paid in Excess of Maximum Rate – Not Competitively Bid and No Prior OJP Approval	2010-JU-FX-0005 AIM Consultant	\$79,000*	Unallowable

Other Grant Expenditures

BBBSA was approved in its grant budgets for supplies and equipment. We reviewed the list of transactions provided by BBBSA and were unable to readily identify specific supplies and equipment. Instead, BBBSA stated that the equipment and supplies were included in the indirect cost category expenses. See the Indirect Costs section for further discussion.

Indirect Costs

Indirect costs are the shared costs incurred by an organization that may not be readily identifiable with a particular project or program but are necessary to the overall operation of the organization and the performance of its programs. In conjunction with its grant budget, a grantee must have a written indirect cost rate agreement approved by its cognizant agency prior

¹¹ We questioned the consultant costs in each of the three grants in their entirety due to BBBSA's failure to establish consultant rates on a case-by-case basis. The asterisked (*) amounts represent consultant costs that were questioned for one or more reasons in addition to BBBSA's failure to review these rates on a case-by-case basis, as noted in Exhibit IV.

to using grant funding for indirect costs.¹² We determined that indirect costs were approved in the budgets for the grants we audited, and BBBSA had an approved indirect cost rate agreement. However, we found that BBBSA failed to follow the approved methodology in the indirect cost rate agreement to identify the amount indirect costs associated with the three grants we audited.

According to BBBSA's approved indirect cost rate agreement, indirect costs are calculated by multiplying the approved cost rate by the total eligible direct costs incurred during a period of time. For BBBSA's indirect cost rate agreement, eligible direct costs were to include all direct costs incurred by the organization with the exception of distorting items such as equipment, capital expenditures, pass-through funds, and each major subcontract or subaward over \$25,000.

The BBBSA Finance Director told us, and we found, that indirect costs associated with the three grants we audited were not calculated according to the methodology defined in the indirect cost agreement. Rather, the BBBSA Finance Director told us the estimated amount of indirect costs in each grant budget was allocated over the life of the grants. This methodology was inappropriate because it does not follow the methodology required by the indirect cost rate agreement and it is based on estimated costs, not actual costs.

During our fieldwork, BBBSA attempted to support the indirect cost charges made to the grants with specific transactions. However, in doing so, the transactions included charges for equipment and supplies which were separate cost categories approved by OJP in the grant budget and should not have been included in the indirect cost charges for the grants.

We determined that BBBSA's methodology incorrectly identified indirect costs totaling \$434,157 associated with the three grants we audited and we consider these costs as both unsupported and unallowable. In addition, due to the unreliable grant expenditure data previously described in the Internal Control Environment section of this report, it was not possible to calculate the correct amount of indirect costs for the grants.

¹² The designated cognizant agency is the Federal awarding agency that provides the predominant amount of funding to an award recipient. For the grants awarded to BBBSA, DOJ was the designated cognizant agency.

Drawdowns

The term drawdown is used to describe the process when a recipient requests and receives funds under a grant award agreement. Between August 19, 2010 and February 5, 2013, BBBSA received a total of \$19,462,448 by making 77 drawdowns related to the 3 grants. We determined that BBBSA's methodology for making these drawdowns was flawed as it (1) was not based on immediate cash needs or grant-related expenditures and (2) did not demonstrate that all funding received was disbursed for grant-eligible purposes in a timely manner. In addition, due to the problems previously discussed related to the accurate tracking of grant-related expenditures, it was not possible to determine whether BBBSA maintained excess cash on hand during the period we audited.

According to the BBBSA Finance Director, the methodology for determining the timing and amount of the drawdowns was incorrectly based, at least in part, on budget estimates rather than its immediate cash needs for grant-related expenditures. Specifically, drawdowns were calculated using OJP approved budget amounts for personnel, fringe, and indirect costs, the total from a spreadsheet maintained by BBBSA's finance department that tracked monthly totals paid to subrecipients, and consultant and travel expense line items identified at the end of the month in the BBBSA operating account.

The Financial Guide states that grantees should time their drawdown requests to minimize the time between the receipt of funds and the disbursement of those funds, and grantee systems should allow recipients to make drawdowns as close as possible to the time of making disbursements. In addition, the BBBSA Finance Director stated drawdowns were based on reimbursements, yet his methodology relied heavily on budget data.

We determined that BBBSA's lack of written policies and procedures for completing drawdowns in accordance with the Financial Guide and a lack of knowledge of these requirements by the Finance Director likely contributed to using this incorrect methodology.

When grantees fail to properly manage and document that they minimize the time elapsing between the receipt of funds and disbursement of those funds for grant eligible expenditures, the Federal Government is at risk of losing interest receipts. As we have already identified the entire amount of drawdowns, \$19,462,448, as questioned cost in the Internal Control section of this report, we do not identify any questioned costs here. However, we recommend that OJP ensure that BBBSA establishes and adheres to written policies and procedures for (1) identifying drawdown

amounts and (2) minimizing the time between drawdown and disbursement in accordance with the Financial Guide.

Budget Management and Control

The Financial Guide addresses budget controls surrounding grantee financial management systems. According to the Financial Guide, grantees are responsible for adhering to approved grant budgets and any deviations exceeding 10 percent must receive prior approval from OJP.

Due to the commingling of transactions previously discussed in this report, it was not possible to compare actual spending to the OJP-approved budget amounts. In addition, we found that BBBSA's reliance on budget data further prevented effective management and monitoring of actual spending.

OJP grant funding is at risk of fraud, waste, and abuse when grantees do not monitor grant budgets, adhere to their pre-approved grant budgets, or do not receive prior written permission for making adjustments to grant budgets exceeding 10 percent. We recommend that OJP ensure that BBBSA develops and adheres to written policies and procedures that comply with all budget-related requirements including monitoring budgets and only request reimbursements for actual expenditures approved in the budget by cost category and amount.

Accountable Property

According to the BBBSA Finance Director, computer-related equipment, such as computers and audio visual equipment, were purchased using funding from two of the three grants we audited. However, due to BBBSA's lack of reliable grant-related expenditure data discussed previously in the Other Grant Expenditures section, BBBSA was not able to document that this accountable property was purchased using grant funding.

The Financial Guide requires recipients to maintain property records that include a description of the property, a serial number, source of the property, identification of the title holder, acquisition date, cost of the property, percentage of Federal participation in the cost of the property, location of the property, use and condition of the property, and disposition data. In addition, the Financial Guide states that grantees must take a physical inventory of accountable property and reconcile the results with the property records at least once every 2 years.

Although the equipment BBBSA acquired using grant funding could not be identified in BBBSA's financial records, we reviewed key aspects of BBBSA's property management system utilized to safeguard similar types of equipment. We determined that this property management system did not include sufficient information related to items purchased to identify acquisition date, cost of the property, percentage of Federal participation in the cost of the property, and disposition data. In addition, BBBSA officials told us that the items in this property system were not subject to periodic inventory procedures. We also found that BBBSA did not have written policies or procedures for the handling, inventory, and disposal of its accountable property inventory.

Provided that it can be demonstrated that BBBSA acquired the accountable property it has claimed, we recommend that OJP ensure that BBBSA improves its property management system and implement policies and procedures to safeguard grant-related equipment.

Grant Reporting

The Financial Guide states that two types of reports are to be submitted by the grantee to provide grant-related information to OJP. Specifically, Federal Financial Reports (FFRs) provide information on actual funds spent and the unobligated amount remaining in the grant and program progress reports provide information on the status of grant-funded activities.

Federal Financial Reports

We reviewed 22 FFRs that BBBSA submitted to OJP for timeliness and accuracy. FFRs are used by OJP to monitor spending by its grantees on a quarterly basis. Although we found BBBSA submitted these FFRs in a timely manner, we determined the reports submitted contained grant-related expenditure information that was inaccurate.

According to the Financial Guide, FFRs should be submitted within 30 days of the end of the most recent quarterly reporting period. Funds or future awards will be withheld if reports are not submitted or are excessively late. We determined that BBBSA submitted all of its FFRs within the 30 day deadline.

We also attempted to evaluate the accuracy of the FFRs by comparing the level of spending reported against the same amounts reflected in BBBSA's accounting system. However, as previously discussed, BBBSA's accounting system did not contain accurate and reliable grant-related

expenditure data. Therefore, it was not possible for us to verify the accuracy of the FFRs using the accounting system data.

Attempting to verify the spending amounts, we reviewed the methodology BBBSA used to identify the amount included in the FFRs. According to the BBBSA Finance Director, the FFRs were based on the amount of funding received from OJP during the quarter and not the actual spending as required.

Inaccurate reporting compromises OJP's ability to monitor grant funds and increases the risk that funding will be subject to fraud, waste, and abuse. We recommend OJP ensure BBBSA implements and adheres to policies and procedures to ensure FFRs are submitted based on accurate information.

Progress Reports

OJP requires grantees to complete and submit progress reports as a means to monitor performance. Progress reports are submitted to describe grant activities and accomplishments toward achieving the objectives contained in an approved grant award application. According to the Financial Guide, progress reports are to be submitted within 30 days after the end of the reporting periods, which are June 30 and December 31.

For the grants we audited, BBBSA submitted 12 required progress reports to OJP and we determined that 10 of the 12 progress reports were submitted on time. One of the reports was submitted 3 days late and we consider this lateness immaterial. The other late report was submitted 185 days late. According to a BBBSA official, an attempt was made to submit the report on time but encountered problems with reporting system. After 180 days, OJP froze BBBSA's grant funding. The same day the funding was frozen, BBBSA successfully submitted the late progress report. According to the OJP Financial Guide, progress reports are due within 30 days after the end of the reporting periods, which occur semiannually on June 30 and December 31, for the life of the award. Because BBBSA submitted the progress report late, OJP's ability to evaluate the performance of the ongoing grant program on a timely basis was compromised. We recommend that OJP ensures that BBBSA implements and adheres to policies and procedures to ensure progress reports are submitted timely.

To verify the information provided in the progress reports, we sampled statistics and other information provided in the most recent progress reports submitted by BBBSA at the time of our fieldwork for each of the three grants

audited. We found BBBSA was able to verify and support the sample statistics we chose for testing from the reports.

Program Performance and Accomplishments

The performance goals associated with the grants we audited included: (1) maintaining BBBSA's Native American Mentoring Initiative and fostering a deeper understanding of working with the American Indian and Alaskan Native tribal communities, (2) reducing the incidence of juvenile crime in 50 underserved local communities across the country by providing research-based local mentoring services to more than 13,725 newly identified high-risk and at-risk youth, and (3) expanding the Juvenile Justice Initiative to provide comprehensive mentoring services to at-risk and high-risk youth in 60 new underserved communities across the country including an increased focus on the children of military or deployed parents.

To assess BBBSA's achievements in meeting the goals and objectives for the grants, we interviewed officials and requested a sample of data that they compiled and used in order to measure and evaluate performance and accomplishments related to each objective.

Based on the information we reviewed, including information regarding the number of matches made with grant funds as tracked within BBBSA's AIM system, it appeared that BBBSA achieved or was on track to achieve the goals and objectives of the grants. We reviewed BBBSA records, agendas, reports, and other documentation and found BBBSA provided the trainings, obtained the mentoring matches, and established partnerships that will fulfill the award objectives.

Program Income

Although grant documentation and statements made by BBBSA officials during this audit suggested BBBSA derived no program income from the grants we audited, we believe portions of two different fees BBBSA collected from its subrecipients represent program income.¹³

¹³ According to the OJP Financial Guide, program income means gross income earned by the recipient during the funding period as a direct result of the award. Direct result is defined as a specific act or set of activities that are directly attributable to grant funds and which are directly related to the goals and objectives of the project. Determinations of "direct result" will be made by the awarding agency for discretionary grants and by the State for block/formula subawards.

The first of these fees is an affiliate fee. BBBSA's subrecipients, which were all BBBSA affiliates, pay BBBSA an annual affiliation membership fee. This fee is calculated as a percentage of total expenditures made by the affiliate. Because each affiliate is required to include expenditures made with subrecipient funding when calculating its fee, BBBSA received fees based on subrecipients spending grant funding. Therefore, we believe BBBSA receives program income when collecting affiliate fees from its subrecipients.

In addition, BBBSA subrecipients were required to pay a fee for the use of the AIM system. For the 2011 grant award, affiliates were required to use the AIM system in order to receive any subaward funding. The AIM fee is based on the total number of children served by the affiliate. Because subrecipient funding was intended to serve children, the AIM fee BBBSA received from its affiliates also increased as a result of grant funding.

Due to the accounting issues and lack of subrecipient monitoring already discussed, we were not able to determine the amount of program income generated by these two fees so we are unable to identify any questioned costs. However, we recommend that OJP ensure BBBSA implement policies and procedures to identify, track, manage, and use program income in accordance with the Financial Guide requirements. Because the affiliate fee structure established by BBBSA likely results in income being generated by BBBSA's subrecipient funding, we believe that BBBSA should recognize the funds that it receives from the subrecipients, based on the grant funds provided, as program income and reported to OJP through the FFR reports. In addition, this program income should be used strictly for grant-related expenditures as directed by the Financial Guide.

OJP Actions

Given the significance and dollar amounts associated with our findings, we briefed OJP on our preliminary findings in February 2013. On February 27, 2013, OJP designated BBBSA as a high risk grantee and imposed an immediate freeze on BBBSA's access to grant funding. In being assigned the high risk designation, BBBSA must now meet special conditions, imposed by OJP, in managing and administering its current and future Department of Justice grants to ensure that grant funds are not misspent. In its February letter to BBBSA noting these actions, OJP stated that: "These are preliminary and temporary mitigating controls which have been put in place solely because of the seriousness of the indications of improper financial management, which are still under review by the DOJ Office of the Inspector General. Once the OIG issues its audit report, OJP

anticipates that there will be a more complete record which will allow a final review of all issues related to BBBSA.”

Conclusions

We determined that all BBBSA expenditures were unsupported due to commingling of funds and that BBBSA was in material non-compliance with the essential grant requirements in the areas we tested for the three awards. Specifically, we found that BBBSA: (1) did not adequately safeguard grant funds; (2) did not adequately monitor subrecipients or require subrecipients to support the grant funds received and expended; (3) had unsupported and unallowable expenditures; (4) did not compute indirect costs based on its approved agreement; (5) did not adequately monitor consultants; (6) did not base its drawdown of funds on actual expenditures; (7) did not monitor actual spending against the approved budget; (8) did not properly safeguard accountable property acquired with grant funding; (9) did not prepare Federal Financial Reports based on actual expenditures; and (10) generated program income which was not properly reported.

As a result of these material weaknesses, we questioned \$19,462,448 in funding that the grantee has received and recommend the \$3,714,838 in funds not yet disbursed be put to better use. These amounts represent the total award amounts for the three grants we audited. We also make 15 recommendations to improve BBBSA’s management of grants.

Recommendations

We recommend that OJP:

1. Remedy the \$19,462,448 in unsupported expenditures resulting from:
 - (a) grant drawdowns that were unsupported due to commingling (drawdown of \$19,462,448),
 - (b) payments made to subrecipients, from the initiation of the grants to June 27, 2012, due to lack of monitoring how the subrecipients spent the funds (expenditures of \$12,624,008),
 - (c) costs associated with personnel and fringe benefits due to lack of time and effort reports (expenditures of \$2,008,405),

- (d) travel expenditures that were not sufficiently documented (expenditures of \$196,059),
 - (e) costs of a Native American Mentoring consultant without the required time and effort reports (expenditures of \$19,375),
 - (f) costs associated with a Native American Mentoring consultant with no documentation of grant related activity (expenditures of \$11,625), and
 - (g) indirect costs not verifiable due to a lack of direct cost data resulting from commingling expenditures (expenditures of \$434,157).
2. Remedy the \$967,415¹⁴ in unallowable expenditures resulting from:
- (a) costs associated with the Associate Director of Native American Mentoring position not on the 2009-TY-FX-0047 approved budget (expenditures of \$37,017),
 - (b) travel expenditures that were not allowable (expenditures of \$196,059),
 - (c) consultant costs due to a failure to ensure that reasonable consultant rates were established on a case-by-case basis (expenditures of \$221,182),
 - (d) costs due to an unapproved, non-competitively negotiated rate without justification for the AIM consultant (expenditures of \$79,000), and
 - (e) indirect costs that were improperly calculated (expenditures of \$434,157).
3. Deobligate and put to better use the remaining \$3,714,838.
4. Ensure that BBBSA establishes appropriate internal controls that include the design and implementation of policies and procedures to assure that its financial management system provides for adequate recording and safeguarding of grant-related activities and ensure that staff are adequately trained and supervised in the use of the system.

¹⁴ In our draft report, the total unallowable expenditures was reported as \$1,019,818. This figure was adjusted to \$967,415 in the final report.

5. Ensure that BBBSA document and implement policies and procedures for subrecipient monitoring.
6. Ensure that BBBSA implement policies and procedures that ensure personnel expenditures paid with grant funding are documented as required by the OJP Financial Guide.
7. Ensure that BBBSA implements time and effort tracking procedures that ensure employees document time spent on grant-related activities.
8. Ensure BBBSA implement policies and procedures that ensure employees paid with grant funds are identified on approved grant budgets.
9. Require that BBBSA clearly document and maintain the analysis, negotiation, justification, and monitoring for grant-funded consultants.
10. Ensure BBBSA implements policies and procedures for accurately calculating and charging indirect costs to Department of Justice grants.
11. Ensure BBBSA establishes and adheres to written policies and procedures for (1) identifying drawdown amounts and (2) minimizing the time between drawdown and disbursement in accordance with the Financial Guide.
12. Ensure BBBSA implements policies and procedures that comply with all budget-related requirements, including the monitoring of grant budgets so that only reimbursement requests are made for actual expenditures approved in the budget by cost category and amount.
13. Ensure BBBSA implements policies and procedures for the acquisition, inventory, and disposal of accountable grant-funded property.
14. Ensure BBBSA implements policies and procedures to ensure FFRs are submitted based on accurate information and implements and adheres to policies and procedures to ensure progress reports are submitted timely.

15. Ensure BBBSA implement policies and procedures to identify, track, manage, and use program income in accordance with the Financial Guide requirements.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of this audit was to determine whether reimbursements claimed for costs under the grants reviewed were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the grant. The objective of our audit was to review performance in the following areas: (1) internal control environment, (2) subrecipient monitoring, (3) grant expenditures, including personnel, fringe benefits, travel expenditures, consultant payments, and other expenditures, (4) indirect costs, (5) drawdowns, (6) budget management and control, (7) accountable property, (8) reporting, and (9) program performance and accomplishments. We determined that matching was not applicable to these grants and were told that the grants did not generate program income. Where possible, we tested compliance with what we consider to be the most important conditions of the grants. Unless otherwise stated in this report, the criteria we audit against are contained in the *OJP Financial Guide* and the award documentation.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit concentrated on, but was not limited to the award of grant number 2009-TY-FX-0047 in September 2009, through our exit conference in February 2013. BBBSA had drawn down a total of \$19,462,448 in grant funds as of February 5, 2013.

When we began our audit in August 2012, as part of our routine audit process, we attempted to obtain a universe of grant related transactions in order to perform sample testing in three areas, which were grant expenditures (including personnel expenditures and indirect costs), Financial Reports, and progress reports. BBBSA provided accounting system reports that included journal entries summarizing what it claimed to be a collection of grant-related transactions.

We asked BBBSA to identify the underlying transactions associated with each of the summary entries but the accounting staff was unable to do so. BBBSA's Finance Director provided multiple spreadsheets to support the entries, which contained miscalculations and were loosely connected to the summary journal entries. We found that BBBSA had not been using the accounting system to track grant activity at the transaction level. In its

accounting system, transactions related to specific OJP grants were recorded in the same accounts with other OJP grants as well as other funding sources. Because BBBSA was unable to provide a listing of grant related transactions, in September 2012, we suspended our audit and issued a warning letter. The warning letter informed BBBSA that if they were unable to identify the specific transactions related to each grant audited, within 30 days, we would issue a report questioning all funds disbursed for each award.

Within 30 days of our warning letter, BBBSA provided to us a manually prepared listing, rather than an accounting system report, of grant-related transactions and we resumed our fieldwork. We reviewed the manually prepared listing and the methodology used to identify the transactions listed. For several budget categories, including personnel and indirect costs, BBBSA used budgeted or projected amounts identified at the start of the grants rather than after the fact sources. We discuss the manually prepared listing, its deficiencies, and the results of our limited testing in the Findings and Recommendations section of the audit report.

In addition, we reviewed the internal controls of BBBSA's financial management system specific to the management of OJP funds during the award period under review. However, we did not test the reliability of the financial management system as a whole. We also performed limited tests of source documents to assess the accuracy and completeness of reimbursement requests and Federal Financial Reports. In addition, we did not perform extensive reliability testing of the BBBSA computerized systems including AIM.

SCHEDULE OF DOLLAR-RELATED FINDINGS

QUESTIONED COSTS: ¹⁵	AMOUNT	PAGE
<u>Unsupported Costs</u>		
Drawdowns	\$19,462,448	11
Subrecipient Payments	12,624,008	15
Personnel and Fringe Benefits	2,008,405	18
Travel Expenditures	196,059	20
Native American Mentoring Consultant - rate	19,375	21
Native American Mentoring Consultant due to no supporting documentation	11,625	21
Unsupported Indirect Costs	434,157	24
<u>Unallowable Costs</u>		
Associate Director of Native American Mentoring	\$37,017	18
Travel Expenditures	196,059	20
Consultant Payment	221,182	21
IT Consultant – Lack of Approval and Justification	79,000	22
Unallowable Indirect Costs	434,157	24
<u>Gross Questioned Costs</u>	\$35,723,492	
<i>Less Duplicative Costs¹⁶</i>	<i>(16,261,044)</i>	
NET QUESTIONED COSTS	<u>19,462,448</u>	
FUNDS TO BETTER USE¹⁷	3,714,838	11
TOTAL DOLLAR RELATED FINDINGS	\$23,177,286	

¹⁵ 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.

¹⁶ Some costs were questioned for more than one reason. Net questioned costs exclude the duplicate amount.

¹⁷ Funds to Better Use are future funds that could be used more efficiently if management took actions to implement and complete audit recommendations.

APPENDIX III

**DEPARTMENT OF JUSTICE AWARDS TO
BIG BROTHERS BIG SISTERS OF AMERICA
2004 - PRESENT**

Award Number	Cumulative Award Amount	Project Begin Date	Project End Date
2004-JG-FX-K001	\$ 6,011,865	01/01/2004	05/31/2005
2005-JG-FX-K001	13,810,596	09/01/2005	08/31/2007
2007-JL-FX-0046	830,000	10/01/2007	09/30/2008
2007-JU-FX-0011	2,000,000	10/01/2007	09/30/2010
2008-JU-FX-0005	8,615,538	10/01/2008	09/30/2009
2008-TY-FX-0001	2,000,000	10/01/2008	09/30/2010
2009-JU-FX-0066	1,000,000	10/01/2009	09/30/2010
2009-TY-FX-0047	1,867,286	10/01/2009	12/31/2011
2010-JU-FX-0005	10,000,000	10/01/2010	03/31/2013
2010-TY-FX-0104	2,042,900	10/01/2010	12/31/2012
2011-MU-MU-0017	11,310,000	10/01/2011	09/30/2013
2011-TY-FX-0030	1,999,854	10/01/2011	09/30/2013
2012-JU-FX-0008	7,000,000	10/01/2012	09/30/2015
Total	\$68,488,039		

Source: Grants Management System

BIG BROTHERS BIG SISTERS OF AMERICA RESPONSE TO THE DRAFT AUDIT REPORT



Big Brothers Big Sisters

May 21, 2013

National Office
230 North 13th Street
Philadelphia, PA 19107

T 215 567 7000
F 215 567 0394

BigBrothersBigSisters.org

VIA EMAIL

Thomas O. Puerzer
Office of the Inspector General
U.S. Department of Justice
701 Market Street, Suite 201
Philadelphia, PA 19106

Re: Response to Draft Audit Report, *Audit of the Office of Justice Programs
Office of Juvenile Justice and Delinquency Prevention Grants Awarded to Big Brothers
Big Sisters of America, Philadelphia, Pennsylvania*

Dear Mr. Puerzer:

Thank you for the opportunity to comment on the draft audit report (the "Draft Audit Report") provided by the Department of Justice ("DOJ"), Office of the Inspector General (the "OIG"). Enclosed is our response, which we hope clearly reflects our understanding of the issues and our top-down commitment to continuing our important work with young people while also meeting or exceeding grant objectives and fully complying with all Department of Justice guidelines.

Big Brothers Big Sisters of America ("BBBSA") values its 20-year working partnership with DOJ. We appreciate your shared commitment to our core goal of helping children realize their potential and building their future, evidenced by the worthy grant programs you administer. Our work together is making a difference in communities across the United States. In your draft report you acknowledge some of our mutual successes and that BBBSA met or is on track to meet the grant objectives. In fact, in the three-year period between 2009 - 2011, the programs under audit allowed almost 17,000 at-risk youth, including some in more than 60 underserved areas, to receive the benefit of professionally supported one-to-one mentoring.

BBBSA understands that programmatic achievements do not absolve our organization of its responsibility to comply with all grant guidelines; we acknowledge deficiencies in our compliance with, and financial management of, the grants reviewed in the audit period. We take full responsibility for those deficiencies and have made substantive changes to our financial systems and grants administration to address these inadequacies. It is our hope that those improvements are recognized by DOJ and will be reflected in your final audit report.

The attached response to the Draft Audit Report details the improvements already in place. BBBSA retained experienced compliance counsel (Arnold & Porter LLP) and engaged the forensic accounting services of Navigant Consulting. Together, we are in the midst of a thorough review and analysis of all grant compliance systems. We are also hiring a Chief Financial Officer to work closely with the organization's new financial management team. Enhancing our compliance systems is a top priority for the

Think of the possibilities. What will you start?

start something

organization, and an ongoing dialogue with the OIG and the Office of Justice Programs (“OJP”) will be critical to the success of those efforts.

We trust the remedial steps that BBBSA has taken to address all the audit findings, our commitment to our mission, our desire to work closely with your staff throughout the forensic accounting review, and our remediation efforts will demonstrate that it is appropriate to:

- grant an extension of 60 days before finalizing your report so that our forensics team can (1) undertake further analysis of the questioned costs, and (2) implement the updated policies, procedures and processes; and
- affirm your commitment to work closely with us in providing the information and support needed by OJP to free up and distribute the remaining \$3,714,838 of grant funds not yet disbursed so they can be used for the purposes originally intended.

We hope that our forensic and finance teams can meet with the OIG and OJP to provide details of our efforts in the days and weeks to come, and receive feedback and suggestions from the government. We suggest a meeting the week of May 27, 2013 to continue this dialogue.

On behalf of BBBSA and its national Board of Directors, we pledge to resolve the issues identified in the Draft Audit Report and to ensure that BBBSA has the systems and personnel needed to comply with all Federal grant requirements.

Sincerely,



T. Charles Pierson
President and Chief Executive Officer



James F. Singleton
Chairman, Board of Directors

cc: Linda J. Taylor (Lead Auditor, Audit Coordination Branch)

Think of the possibilities. What will you start?

start something

Response to Draft Audit Report, Audit of the Office of Justice Programs Office of Juvenile Justice and Delinquency Prevention Grants Awarded to Big Brothers Big Sisters of America, Philadelphia, Pennsylvania

Executive Summary

The draft audit report (“Draft Audit Report”) prepared by the Department of Justice (“DOJ”), Office of Inspector General (the “OIG”) has been thoroughly analyzed by those at the highest levels of the Big Brothers Big Sisters of America (“BBBSA”) organization.

We recognize the seriousness of the finding, and understand that greater emphasis should have been placed on compliance with, and financial management of, the Federal grants identified in the Draft Audit Report. Rectifying the audit findings is our top priority.

That being said, BBBSA remains proud of the programmatic successes we have accomplished under these audited grants. This Federal funding has helped our organization remain steadfast in its core mission of improving the lives of at-risk youth through one-to-one mentoring. We work diligently at every stage of the mentoring process to establish and facilitate meaningful relationships, from recruiting, vetting and training volunteers, establishing a presence in, and gaining the trust and confidence of, the populations to be served, and providing ongoing support for established mentoring programs.

As part of the three grants at issue in the Draft Audit Report, BBBSA has matched 16,787 children with mentors. We have exceeded the combined 13,725 match goal required by the audited grants by 22.3 percent, providing a positive return on investment to not only the Federal government, but also to participating individuals, families and surrounding communities.

To ensure that BBBSA’s awarded Federal grants were in compliance, the organization’s senior management and Board of Directors (“Board”) relied on a finance department that they believed were qualified and well trained. Senior management also took comfort when retained top-ranked external auditors did not raise any red flags and DOJ desk audits found no issues. We now recognize that these efforts were insufficient. Our financial and grant management systems need more of our direct focus and attention.

BBBSA is already well underway in implementing a more intricate system of checks and balances. We have made considerable progress in a short amount of time through a number of corrective and remedial measures, including personnel changes, the creation and implementation of new policies and procedures, and employee training.

BBBSA is deeply committed to continuing our work to improve the lives of at-risk youth by providing them with friendship, emotional support and guidance from positive role models. Our partnership with the Office of Justice Programs (“OJP”), and other Federal agencies, is critical to our continued success and vitality.

Thanks to the 2009 Native American Mentoring Initiative grant, BBBSA successfully expanded and deepened its programs focusing on American Indian and Alaskan Native youth. We actually exceeded our target increases in the number of American Indian and Alaskan youth served. Under the 2010 Juvenile Justice exceeded its target Initiative grant, BBBSA successfully achieved its thirteen objectives and for increases in the number of youth served by almost 60 percent – a total of 8,182 high-risk and at-risk youth. Under the 2011 Juvenile Justice Initiative grant, BBBSA reduced the number of youth waiting for a mentor by implementing a proactive recruitment and marketing campaign to target African-American and Hispanic men to serve as mentors. In short, the partnership between OJP and BBBSA is effective and is producing positive results in the lives of at-risk youth.

We recognize that, in order to continue such mutually beneficial partnerships, we must fully remediate our compliance and financial management systems. As set forth below, BBBSA is committed to making matters right by continuing to work diligently and transparently to address all of the Draft Audit Report’s findings. We are ready to pursue all reasonable measures to restore DOJ’s full confidence in this organization.

With the assistance of outside experts, Arnold & Porter LLP (“Arnold & Porter”) and Navigant Consulting, Inc. (“Navigant”), BBBSA hopes to engage in a continuing dialogue with the OIG and OJP to review and, if necessary, refine the systemic changes that BBBSA has implemented to renew its partnership with the Federal government to help at-risk youth.

**Response to Draft Audit Report, Audit of the Office of Justice Programs Office of Juvenile
Justice and Delinquency Prevention Grants Awarded to Big Brothers Big Sisters of America,
Philadelphia, Pennsylvania**

I. BBBSA Has a Strong History of Improving the Lives of Children

BBBSA is one of the oldest and largest youth mentoring organizations in the United States. The BBBSA movement began in 1904 when a court clerk recognized the need for adult role models for the at-risk youth he saw appear and reappear in his courtroom. Others recognized the need as well, and Big Brother and Big Sister affiliates spread throughout the country, channeling the deep tradition of volunteerism in America with a focus on improving the lives of children. Today, BBBSA and hundreds of its local affiliates work with thousands of volunteers to improve the quality of life of at-risk youth in over 5,000 communities across the country. Since its founding, Big Brother Big Sister volunteers have spent millions of hours mentoring children. Today, BBBSA and its affiliates serve over 200,000 children annually, and such operations continue to expand. BBBSA's mission is to provide children facing adversity with strong and enduring, professionally supported one-to-one relationships that change their lives for the better, forever. Focusing on at-risk youth with single parent/guardian households and living in poverty, BBBSA carefully pairs children with screened volunteer mentors, and monitors and supports them in one-to-one mentoring roles.

Research shows that BBBSA mentoring helps children improve in key areas. They are less likely to begin using drugs and alcohol, less likely to skip school and classes, and less likely to engage in violent behavior. They gain self-confidence and are better able to get along with family members and friends. BBBSA mentoring helps children increase their sense of social acceptance, increase their educational expectations and competence, increase parental trust, and improve their attitudes toward risky behaviors. Simply put, BBBSA's mentoring works.

In 2004, BBBSA celebrated its 100-year anniversary. Congress commemorated that anniversary with an official resolution in 2005, which expresses support for, and calls on all Americans to join in supporting, the BBBSA movement. The resolution states that "Congress (1) recognizes the second century of Big Brothers Big Sisters, supports the mission and goals of the organization, and commends Big Brothers Big Sisters for its commitment to helping children in need reach their potential through professionally supported one to one mentoring relationships with measurable results; (2) asks all Americans to join in marking the beginning of Big Brothers Big Sisters' second century and support the organization's next 100 years of service on behalf of America's children; and (3) encourages Big Brothers Big Sisters to continue to strive towards serving 1,000,000 children annually." *H. Con. Res. 41 (Apr. 28, 2005)*. BBBSA cannot and does not rest on its laurels. It is working diligently to build on this 100-year history to improve the lives of more and more children each year.

II. BBBSA is Committed to Compliance

A. BBBSA Has Begun the Remediation Process

BBBSA acknowledges that the findings in the Draft Audit Report are unacceptable. The Draft Audit findings fall far short of the standards under which BBBSA expects to conduct its operations, and BBBSA recognizes that a number of comprehensive changes are required to set the organization back on course and ensure regulatory compliance going forward. BBBSA takes very seriously its responsibility to be a good steward of Federal grant funds. BBBSA has already made significant improvements in its financial management practices and is committed to implementing each and every change recommended by the OIG.

Although the Draft Audit Report acknowledged that BBBSA met or was on track to meet its performance goals under the grants, it also uncovered numerous areas in which BBBSA fell short. BBBSA is confident that these problems will not come to define BBBSA as an organization. Though not a defense or an excuse, BBBSA was very successful in implementing the grants at issue, and BBBSA hopes to build and expand these programs, while becoming fully compliant with all Federal grant requirements. BBBSA understands that making things right will require a candid acknowledgement of the errors that occurred, and we must formulate and implement an effective plan for responding to the audit findings.

BBBSA Board and senior management, together with our counsel, Arnold & Porter, and forensic accounting experts, Navigant, have carefully studied the Draft Audit Report and have developed a comprehensive series of remedial measures, many of which BBBSA began implementing even before receipt of the Draft Audit Report. The remediation project is subject to the direct monitoring and oversight of the Legal and Finance Committee of the BBBSA Board, including a subcommittee that includes the Chairman of the Board, and the Co-Chairmen of the Legal and Finance Committee. The Board has made this remediation project its top priority and has authorized the expenditure of appropriate funding to support all aspects of this project. Much of this funding is available only through the utilization of reserve funds. Further, Arnold & Porter and Navigant have a direct communication channel to the subcommittee, ensuring that all issues are properly addressed. These improvements and changes are already well underway — Arnold & Porter and Navigant worked with us to finalize new policies and procedures, BBBSA has adopted such policies and procedures, and Navigant is working to refine, document and test the resulting processes. Moving forward, BBBSA will monitor progress and devote all necessary attention and resources to implement — fully and successfully — the new policies and procedures described in more detail below.

B. The Draft Audit Findings Are Not Representative of BBBSA

The weaknesses identified by the OIG for Federal grants awarded to BBBSA for funds received between 2009 and 2013 are not reflective of the BBBSA organization as a whole or over time. Rather, it appears that BBBSA's compliance practices have historically been sound. An audit by the OIG in 2004 indicates that the recent deficiencies were an anomaly; in 2004,

less than 1% of BBBSA's \$12,393,400 in OJP funding from May 1998 to September 2002 was deemed unsupported.

Further indicative of its history of compliance, BBBSA has received considerable recognition within the nonprofit sector for maintaining superior standards of financial accountability and transparency. BBBSA is currently recognized by the Better Business Bureau's Wise Giving Alliance as a top charity, meeting all Standards for Charitable Accountability based upon its comprehensive, in-depth evaluations of BBBSA's governance, fund-raising practices, solicitations and informational materials, and how it spends its money. Additionally, of the more than one million charities operating in the United States today, BBBSA is currently one of under 2,000 charities to have received the Independent Charities Seal of Excellence for members of Independent Charities of America that have, upon rigorous independent review, been able to certify, document, and demonstrate on an annual basis that they meet the highest standards of public accountability, program effectiveness, and cost effectiveness. In fact, for seven consecutive years (FY 2001 through FY 2007), Charity Navigator, an independent evaluator of charitable organizations, awarded BBBSA its top four-star rating, placing BBBSA in the top 1% of all charities in America in terms of fiscal responsibility and effective use of donations. On August 1, 2012, Charity Navigator once again awarded BBBSA four stars for both its financial and overall rating. BBBSA is also currently one of only two youth-development organizations with a top A+ rating from the American Institute of Philanthropy. Further, in 2011, BBBSA was named the #1 Nonprofit for At-Risk Youth and commended for its effective mentoring model, organizational leadership and community outreach by GuideStar's Philanthropedia, based on a survey of foundation professionals, researchers, academics, nonprofit senior staffers and other experts on their views of charities' impact and organizational strengths.¹

Despite running very successful programs, we now know that the systems that were in place during the 2009-2011 OJP grants were inadequate. These problems were not caught earlier for a number of reasons. In each of BBBSA's Single Audit Reports, the independent auditors — PricewaterhouseCoopers LLP for audit years 2010-2011, and Morison Cogen LLP for audit years 2006-2009 — issued unqualified opinions that BBBSA had no grant-related material internal control weaknesses or deficiencies.² Even the management letters provided to BBBSA's Board included very few suggested changes and the ones that were noted were not designated as material (e.g., improve BBBSA's timekeeping system). Moreover, the OJP desk reviews of BBBSA's grants in September 2010, September 2011, and June 2012 found that BBBSA was not a high-risk grantee, was a low priority for monitoring, and had no financial or progress compliance issues. We recognize that the responsibility of establishing and maintaining effective grant compliance and control systems rests with BBBSA and while not an

¹ BBBSA's first place ranking for the outcomes they help achieve in youth development was the result of recommendations from 88 national at-risk youth experts with an average of 19 years of experience in the field.

² BBBSA is in the process of retaining a new certified public accounting firm, Shechtman Marks Devor PC, to serve as its outside auditor.

excuse for the recent systems failures, BBBSA's Board and management placed a significant degree of reliance on these audits and reviews in determining whether its systems and policies were sufficient and operating as required. Moreover, it is important to note that, to date, neither the OIG nor BBBSA's forensic accounting team has found any evidence of intentional misuse or misdirection of Federal funds.

Compounding the problems set forth above, the individuals who provided information to the auditors during DOJ field work in the Fall of 2012 were unable to deliver the information requested by DOJ in its review. We recognize that now. In the investigation we have commissioned through our outside counsel and our forensic accounting firm, we have already gathered significant information, and we expect that we will be able to provide in the near future more comprehensive data to the OIG regarding grant expenditures than was available during DOJ's field work. In the days and weeks to come, we request that the OIG and DOJ allow our forensic and finance teams to provide the government additional details of their work and receive feedback on those efforts. The passage of time and recordkeeping limitations may prevent us from producing a full audit trail, but we believe we will be able to provide evidence that will persuade a finder of fact that DOJ funds were all spent in furtherance of the grant goals.

C. BBBSA Has Put in Place New Leadership

In order to move forward and to install effective new internal controls, BBBSA has replaced all of its senior management and financial leadership. This turnover process began on June 15, 2012, when the Board completed a thorough search process and hired T. Charles Pierson as BBBSA's new Chief Executive Officer. (Mr. Pierson previously served as the Chief Executive Officer of BBBSA's largest affiliate.) Mr. Pierson, in turn, installed a new management team: a new Vice President of Human Resources in July 2012, a new Vice President of External Relations in September 2012, a new Chief Operating Officer in October 2012, a new General Counsel in January 2013, and created a new Director of Federal Compliance and Project Management position in February 2013, which was filled in May 2013. Similarly, an entirely new Finance department was put into place in early 2013, with a new Senior Director of Finance, a new Staff Accountant, and a new Accounts Receivables/Payables Clerk. Mr. Pierson and the Board have also instituted a broad search for a new Chief Financial Officer; filling this position is a top priority.

In addition, the new leadership team has implemented various organizational changes. This has included clarifying the responsibilities of the Director of Grantee Support and Performance to be almost exclusively focused on the monitoring of subrecipients of grant funds.³ This position will be responsible for the oversight of subrecipient agreements, training, compliance with financial guidelines, and other grant requirements.

³ All subrecipients of Federal grant funds are affiliates of BBBSA.

D. BBBSA Has Enhanced Its Financial and Grants Management Systems

This new leadership team has worked with outside counsel and forensic accountants to overhaul the grants management and internal control policies and procedures in order to effectively comply with applicable law, regulations and award guidelines. BBBSA has approved, and is currently working with Navigant to implement, enhancements to its overall system of internal controls which are designed to ensure that (1) transactions are properly recorded and accounted for in order to permit preparation of reliable financial statements and reports to funders (including Federal agencies), accountability over assets is maintained, and compliance with laws, regulations and other compliance requirements, including requirements imposed pursuant to grant agreements, can be demonstrated; (2) funds, property and other assets are safeguarded against loss from unauthorized use or disposition, including use or disposition contrary to any grant agreements; and (3) the necessary policies and procedures are in place so that BBBSA is able to demonstrate clear compliance with requirements associated with its status as a Federal grantee. To the extent Federal funds are released, BBBSA will be able to verify that these new policies are sufficient to correct the problems identified in the Draft Audit Report or, if necessary, to make additional adjustments.

This comprehensive overhaul includes, but is not limited to, the following policies and associated procedures, which have been approved by BBBSA's management and the implementation of which are already underway:

- *Financial Management System and Internal Controls Policy* (discussed in the response to Recommendation No. 4), which provides the framework for the organization to generate accurate, timely and complete reports of the financial activities for each program or project; for accounting entries to be entered into the BBBSA financial system contemporaneously, adequately coded to identify the source and use of grant funds, and preserved to enable accurate production of any transaction history; and for grant funds to be segregated and only be disbursed for grant-related expenditures, including travel and personnel and fringe benefits expenditures, for which appropriate supporting documentation and approvals have been obtained.
- *Subrecipient Monitoring Policy* (discussed in the response to Recommendation No. 5), which sets forth procedures to ensure potential subrecipients are thoroughly evaluated prior to the disbursement to them of any Federal funds, that subrecipients provide accurate, timely and complete programmatic and financial disclosure to BBBSA of activities undertaken pursuant to subawards (including to enable BBBSA to request drawdowns from the awarding Federal agency on a reimbursement process), and to ensure that the programmatic and financial requirements of subawards are fulfilled.
- *Timekeeping Policy* (discussed in the response to Recommendation Nos. 6-8), which sets forth procedures to ensure that all time spent by employees, including time spent on grant-related activities, is tracked accurately to provide further assurance that employee time is charged to the appropriate grant or funding source, and in accordance with the approved grant budget.

- *Policy for Hiring and Oversight of Consultants and Other Contractors* (discussed in the response to Recommendation No. 9), which sets forth procedures to ensure that the hiring and monitoring of Federally funded contractors is conducted in a manner that is consistent with Federal requirements.
- *Indirect Cost Allocations Policy* (discussed in the response to Recommendation No. 10), which sets forth procedures to ensure the proper allocation of indirect costs of Federal grants, in accordance with agency-approved methodology.
- *Federal Award Drawdown Policy* (discussed in the response to Recommendation No. 11), which sets forth procedures to accurately identify amounts for drawdown from BBBSA and its subrecipients on a reimbursement basis, and to minimize the time between drawdown and disbursement.
- *Grant Adjustment and Budget Modification Policy* (discussed in the response to Recommendation No. 12), which sets forth procedures to ensure that the organization monitors the operation of grants and tracks actual expenditures against the approved award budgets on a continuous basis such that, in the case of a Federal grant, BBBSA receives appropriate Federal agency approval for budget modifications and other changes to its Federal grants.
- *Property Policy* (discussed in the response to Recommendation No. 13), which sets forth procedures to ensure that BBBSA appropriately accounts for and monitors the acquisition, maintenance and disposal of all equipment and related property, including additional requirements where such equipment or property is acquired with Federal funds.
- *Grant Reporting Policy* (discussed in the response to Recommendation No. 14), which sets forth procedures to ensure the timely and accurate reporting of financial and programmatic information to funders in accordance with both Federal and non-Federal reporting requirements.
- *Program Income Policy* (discussed in the response to Recommendation No. 15), which sets forth procedures to ensure that the organization appropriately identifies, treats, records and reports program income associated with funds received from Federal agencies.

BBBSA reiterates its previous communications to the OIG and OJP that it will work cooperatively to ensure that these policies and their implementation fully address the concerns raised in the Draft Audit Report.

III. BBBSA and DOJ Have Had a Long and Successful Partnership

BBBSA and DOJ have worked closely over many years to address the challenges confronting our nation's youth. A description of our work together as part of the three OJP grants at issue is set forth below. As a direct result of OJP funding, BBBSA mentoring has emerged as an evidence-based practice for positive youth development and as an effective tool

to help young people build resilience and succeed in life. BBBSA is uniquely positioned to leverage lessons learned from our prior OJP national mentoring experience (including the audited grants) to expand mentoring activities and create new opportunities for mentee achievement, increase access to and the quality of mentoring services, and improve outcomes for at-risk, high-risk, and underserved youth. Future OJP funding could further demonstrate the efficacy of the BBBSA mentoring model and highlight the extent to which individual, environmental, and/or program characteristics build resilience and contribute to observed differences among vulnerable young people including tribal, military, and juvenile justice system involved youth.

BBBSA has utilized the grant funds made available by the OJP to provide much-needed services to at-risk and high-risk young people. As acknowledged by the OIG in the Draft Audit Report, "BBBSA achieved or was on track to achieve the goals and objectives of the grants." *Draft Audit Report at 29.* In fact, BBBSA exceeded the objectives of the grants by 22.3%. BBBSA is steadfast in its commitment to the grant objectives, and the organization has worked diligently to achieve its programmatic goals, as detailed in the grant progress reports.

Grant No. 2009-TY-FX-0047

On September 18, 2009, OJP approved BBBSA's application for funding under the FY 09 Tribal Youth National Mentoring Program. BBBSA's stated goal was to maintain and expand its Native American Mentoring Initiative, which seeks to increase the number of mentoring matches involving American Indian or Alaskan Native youths, a population with an elevated incidence of exposure to violence and gangs, and at increased risk for drug abuse, school dropout, depression and suicide.

BBBSA's successes under this grant include:

- Increasing the number of American Indian and Alaskan Native youth in BBBSA mentoring relationships by 3,644 children.
- Enhancing organizational capacity through expanded recruitment, training, and the retention of qualified mentors. These efforts included such things as implementing a marketing campaign to recruit new Native American volunteers to serve as mentors, and developing partnerships with local businesses and tribal communities to encourage adults to volunteer as mentors. For example, the BBBS of Siouxland developed a partnership with Ho Chunk, Inc., an economic development corporation owned by the Winnebago Tribe of Nebraska, whereby Ho Chunk, Inc. provided an on-site workplace for mentor recruitment and enrollment. As another example, the BBBS of Mississippi partnered with government departments of local tribal nations so that department employees were provided with paid time off to mentor BBBSA youth, thus allowing the agency to provide 100% Native American volunteers.
- Obtaining authorization to work in additional tribal nations, which enables BBBSA to further expand its capability to serve Native American and Alaskan Native youth.

Grant No. 2010-JU-FX-0005

On September 15, 2010, OJP approved BBBSA's application for funding to support BBBSA's Juvenile Justice Initiative, which seeks to reduce the incidence of juvenile crime in 50 underserved local communities across the country through research-based local mentoring services for high-risk and at-risk youth. Rigorous external evaluations of BBBSA programs have found that youth mentored by BBBSA volunteers are 70% less likely to initiate drug use, one-third less likely to exhibit violent behavior, and half as likely to skip school days as their peers.

BBBSA achieved many successes under the grant, including:

- Exceeding the goal for number of youth served by almost 60%, to serve a total of 8,182 newly identified high-risk and at-risk youth in more than 50 underserved communities.
- Providing essential screening, skilled matching, case management, in-service training, and structured oversight for all mentoring relationships to ensure long-term and successful matches.
- Achieving the goal of having less than 15% of program participants arrested for a crime, offense and/or violation. In addition, a majority of the youth served experienced improved social competencies.
- Entering into 157 Memoranda of Agreement ("MOAs") to develop partnerships with organizations that work with high-risk youth such as schools, law enforcement agencies, juvenile justice agencies and re-entry programs. These partnerships help BBBSA to establish a collaborative community to identify high-risk youth, connect them with mentors and increase appropriate wrap-around services to reduce delinquency, substance abuse, truancy and other problem or high-risk behaviors.
- Exceeding BBBSA's goal to establish at least three new partnerships with national youth-serving organizations to improve the quality of mentoring services and improve recruitment of high-risk and at-risk youth by adding four new partners.
- Developing Juvenile Justice and Mentoring flow charts to facilitate the delivery of BBBSA mentoring services to high-risk youth at the appropriate and allowable referral stage of their specific juvenile justice involvement.

Grant No. 2011-MU-MU-0017

On September 30, 2011, OJP approved BBBSA's application for funding under the FY 11 National Mentoring Program to expand BBBSA's Juvenile Justice Initiative. Under this grant, BBBSA provides comprehensive mentoring services for at-risk and high-risk youth in 40 new underserved communities across the country, and collects and disseminates evidence-based referral and service delivery practices, while working at ten sites already showing promise as models of prevention and intervention.

The expansion that BBBSA has accomplished under this grant has enabled BBBSA to serve 4,961 newly identified at-risk and high-risk youth in an effort to reduce drug abuse, truancy, and other problem behaviors. As of December 31, 2012⁴, BBBSA had met, or was confident that it would meet, all grant deliverables and youth goals by the end of the grant period:

- BBBSA exceeded its goal of providing skilled matching, case management, in-service training, and structured mentoring for 4,850 new one-to-one matches in 70 underserved communities. As of December 31, 2012, BBBSA had made significant progress toward the other objectives. BBBSA expanded its reach by (a) serving 4,961 youth (111 matches greater than the goal), including 671 children of military parents, and (b) successfully recruiting, screening and training 4,961 new volunteer mentors.
- BBBSA's goal was to ensure that fewer than 15% of program participants were arrested, and was on track to exceed that goal as of the end of 2012. In addition, an overwhelming majority had shown an increase in social competencies.
- BBBSA's goal was to have 50 BBBS programs in local underserved communities sign three new MOAs (a project total of 150 MOAs), and to have 20 BBBS Military Mentoring programs sign three new MOAs (a project total of 60 MOAs) with military bases, military service organizations, schools, juvenile justice organizations, and other "wrap around services." As of December 31, 2012, BBBSA was on track to obtain all of the required MOAs by the end of the grant period.
- BBBSA's goal was that 100% of the 70 participating programs would be in both program and budgetary compliance with BBBSA contractual agreements. As of December 31, 2012, BBBSA had conducted 29 site visits, had completed other steps toward its objective, and did not foresee barriers to successful completion of the objective.
- BBBSA has collaborated with other national organizations that support high-quality mentoring services to learn from each other and to reinforce effective practices in the juvenile justice and mentoring fields. BBBSA created a National Mentoring and Juvenile Justice Advisory Council, and has disseminated the meeting minutes and publicized the Council's findings. BBBSA has also coordinated efforts with the Office of Juvenile Justice and Delinquency Prevention ("OJJDP") and participated in OJJDP meetings to discuss a national strategy for mentoring.
- BBBSA has decreased the size of the waiting list of high-risk and at-risk youth through a recruitment and marketing campaign targeting African-American and Hispanic men.

⁴ Data for our next Progress Report will be gathered in July 2013.

- BBBSA has increased awareness and understanding of key issues in mentoring by hosting five Juvenile Justice and Mentoring webinars (open to the public) with the assistance of juvenile justice consultants.

IV. Response to Audit Issues

BBBSA's responses to the recommendations in the Draft Audit Report contain a detailed description of the remedial measures that BBBSA has taken, or is in the process of taking, to enhance its financial system and grants management. A critical part of this enhancement is the adoption and continued implementation of the policies described in detail below.

While many of the procedural improvements associated with the above policies were already implemented or in the process of being implemented late last year or early this year (even prior to issuance of the Draft Audit Report), the policies approved by management were finalized in close coordination with, and with input from, BBBSA's outside counsel and forensic accountants, to ensure that these policies are in compliance with Federal requirements, including the OJP Financial Guide. As part of an ongoing dialogue, BBBSA welcomes feedback on these policies from the OIG and OJP, to confirm that the Federal requirements, and the concerns raised in the Draft Audit Report, have been fully addressed.

In addition, in the coming period, Navigant will be working closely with BBBSA to document the processes through which these policies (and the procedures contained therein) have been implemented, and then Navigant will be performing testing on an independent basis, to verify that these processes are operating as set forth in the policies or suggesting improvements to such policies. BBBSA, in conjunction with Navigant, will be providing the OIG and OJP with regular updates regarding this process testing, to demonstrate that these compliant policies have been implemented and the concerns raised in the Draft Audit Report have been rectified.

A. Recommendations Identified in Draft Audit Report

1. **Recommendation No. 1: Remedy the \$19,462,448 in unsupported expenditures resulting from:**
 - (a) **grant drawdowns that were unsupported due to commingling (drawdown of \$19,462,448),**
 - (b) **payments made to subrecipients, from the initiation of the grants to June 27, 2012, due to lack of monitoring how the subrecipients spent the funds (expenditures of \$12,624,008),**
 - (c) **costs associated with personnel and fringe benefits due to lack of time and effort reports (expenditures of \$2,008,405),**
 - (d) **travel expenditures that were not sufficiently documented (expenditures of \$196,059),**

- (e) costs of a Native American Mentoring consultant without the required time and effort reports (expenditures of \$19,375),
 - (f) costs associated with a Native American Mentoring consultant with no documentation of grant related activity (expenditures of \$11,625), and
 - (g) indirect costs not verifiable due to a lack of direct cost data resulting from commingling expenditures (expenditures of \$434,157).
2. **Recommendation No. 2: Remedy the \$1,019,818 in unallowable expenditures resulting from:**
- (a) costs associated with the Associate Director of Native American Mentoring position not on the 2009-TY-FX-0047 approved budget (expenditures of \$37,017),
 - (b) travel expenditures that were not allowable (expenditures of \$196,059),
 - (c) consultant costs due to a failure to ensure that reasonable consultant rates were established on a case-by-case basis (expenditures of \$221,182),
 - (d) costs due to an unapproved, non-competitively negotiated rate without justification for the AIM consultant (expenditures of \$79,000), and
 - (e) indirect costs that were improperly calculated (expenditures of \$434,157).

BBBSA has not yet completed a forensic examination and thus cannot ascertain whether it can agree to any of the allegedly unsupported and unallowable expenditures. Shortly after receipt of the Draft Audit Report, BBBSA engaged Navigant to review and analyze, among other things, the alleged unsupported and unallowable expenditures. Navigant, with BBBSA's support, has been working diligently but requires additional time to complete its investigation. BBBSA respectfully requests that the OIG withhold any final determination on the unsupported or unallowable expenditures until that forensic investigation is complete. BBBSA commits to working with the OIG to provide routine updates on the forensic investigation to facilitate the OIG's comfort on the progress, reliability and diligence of the ongoing forensic investigation. Moreover, as set forth below in response to Recommendation Nos. 4 through 15, BBBSA has adopted several new and enhanced policies and procedures to its financial systems, grant management and other procedures and processes to ensure BBBSA's compliance with all Federal and non-Federal grant requirements, enhance BBBSA's practices for recording and supporting grant-related expenditures, safeguard grant funds, ensure compliance with the terms and condition of the grants, and improve performance and financial monitoring of subrecipients of grant funds.

Set forth below is a summary of the current ongoing forensic investigation and proposal for the forensic investigation of BBBSA's subrecipients. As BBBSA has previously advised, it would like to work collaboratively with the OIG to ensure the investigation meets with the OIG's approval.

BBBSA is in the process of using forensic accounting review and analysis techniques, through Navigant, to determine that the questioned grant funds were used for the intended purposes and to address the other audit findings included in the Draft Audit Report. Navigant has begun tracking the flow of the \$19,462,488 questioned grant funds from receipt through disbursement and ultimate expenditure. This exercise will include assessment of the use of such funds that were transferred to subrecipients. At BBBSA, we understand that the questioned grant funds were commingled with other funds, although BBBSA has since put in place controls to ensure that such commingling no longer occurs. Accordingly, Navigant is utilizing commonly accepted forensic accounting techniques to track the flow of these commingled funds. The primary objective of this exercise is to determine where the questionable grant funds were deposited and to determine whether disbursements in an amount equivalent to what BBBSA claimed were subsequently disbursed from these accounts for allowable grant activities.

While Navigant's work to date has been at the national level, Navigant also plans to track the flow of questioned grant funds transferred to BBBSA subrecipients, totaling \$12,624,008. Concurrently, Navigant is also performing the forensic accounting steps necessary to address the other draft audit findings relating to the alleged unsupported or unallowable expenditures. Navigant will also assess the audit finding that certain fees charged to subrecipients should be considered program income and, as such, restricted as to their use.

Navigant is still finalizing its workplan; its current plan includes, but is not limited to, interviewing BBBSA employees; performing walk-throughs of the current processes and subsequently providing improvements to enhance approach and strengthen BBBSA's internal controls; collecting and analyzing bank statements, deposit slips, cancelled checks and wire advances for all BBBSA bank accounts from 2009 to the present to track the flow of funds; imaging hard-drives of selected current and former employees; performing keyword searches of computer files and emails of key personnel; and reviewing invoices, consulting and other contracts, competitive bids, purchase orders and disbursement records to assess the adequacy of competent evidential support of corporate expenditures. Navigant is also reviewing employee timesheets and other records that may exist to evaluate the appropriateness of how costs were charged to grants and other activities.

Navigant believes it is both appropriate and cost effective to utilize statistical sampling techniques to track the use of Federal funds transferred to subrecipients. The cost to review 100% of the subrecipients' use of these funds would far outweigh the benefits derived from applying the results of a sample to the population of subrecipients and the time required would also be prohibitive. Accordingly, for testing purposes, we propose selecting a sample of

subrecipients that would provide us with confidence that the outcomes would be representative of the entire population of subrecipients.

In conformity with AU Section 350, "Audit Sampling," issued by the American Institute of Certified Public Accountants, Navigant plans to make a random selection of subrecipients for attribute and cost accountability testing from the population of subrecipients that received questioned grant funds. For those subrecipients selected, Navigant will conduct site visits and/or desk audits and will review and analyze their books and records to assess whether the funds were used for the purposes intended and the subrecipients were in compliance with applicable grant and other OJP Financial Guide requirements.

Navigant will track the use of the funds transferred to the selected subrecipients. These procedures could include interviewing subrecipient employees; performing walk-throughs of the current processes and subsequently providing improvements to enhance approach and strengthen the subrecipients' internal controls; and collecting and analyzing bank statements, cancelled checks and other related support from 2009 to the present to determine how these funds were used. This process would also encompass inspection of the underlying support of grant fund disbursements such as vendor invoices, consulting contracts, purchase orders, payroll records and other supporting documentation to ultimately assess whether the questioned funds were used for the purposes intended under the grant. BBBSA intends to discuss this approach in more detail with the OIG prior to commencement of this work.

3. Recommendation No. 3: Deobligate and put to better use the remaining \$3,714,838.

BBBSA respectfully disagrees with this recommendation. The Draft Audit Report recognizes that BBBSA had met or was on track to meet its performance goals under the grants – and BBBSA has updated data to demonstrate that it exceeded its goals for children served under these grants by 22.3%. Moreover, as described below in response to Recommendation Nos. 4 through 15, BBBSA has made significant progress towards systemic, policy and procedural improvements, including but not limited to, implementation of enhancements to the overall system of internal controls over its financial management system, which are designed to ensure that (1) transactions are properly recorded and accounted for in order to permit preparation of reliable financial statements and reports to funders (including Federal agencies), accountability over assets is maintained, and compliance with laws, regulations and other compliance requirements, including requirements imposed pursuant to grant agreements, can be demonstrated; (2) funds, property and other assets are safeguarded against loss from unauthorized use or disposition, including use or disposition contrary to any grant agreements; and (3) all BBBSA staff receive the financial training and supervision appropriate to their role within the organization, so that BBBSA can ensure compliance with these financial controls. BBBSA has also implemented enhanced policies, systems and procedures relating to the financial and performance management of its subrecipients.

Through these enhanced policies, systems and procedures, BBBSA will ensure that use of Federal funds will be in compliance with Federal law, regulations and agency requirements.

Further, Navigant will remain in-house and will continue to assist with and monitor the implementation of BBBSA's policies and practices, as well as make recommendations regarding additional measures for further improvements to BBBSA's financial and performance systems.

Deobligation of the remaining \$3,714,838 in OJP funds is unwarranted, given BBBSA's newly overhauled systems, and would create unnecessary and unreasonable consequential injury to the youth we all serve. With the remaining \$3,714,838, BBBSA and its subrecipients can preserve active mentoring relationships. As described below, the premature and abrupt termination of mentoring relationships is especially harmful to the population of at-risk youth in underserved communities targeted by BBBSA.

BBBSA has undertaken a complete turnaround in its internal policies, systems and procedures to ensure the safeguarding of Federal grant funds. OJP should provide the remaining funds to BBBSA, so that BBBSA can maintain the mentoring relationships that are having a measurable, positive impact on children's lives.

- 4. Recommendation No. 4: Ensure that BBBSA establishes appropriate internal controls that include the design and implementation of policies and procedures to assure that its financial management system provides for adequate recording and safeguarding of grant-related activities and ensure that staff are adequately trained and supervised in the use of the system.**

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

BBBSA has approved, and is currently implementing, new internal controls over its financial management system, which are designed to ensure that (1) transactions are properly recorded and accounted for in order to permit preparation of reliable financial statements and reports to funders (including Federal agencies), accountability over assets is maintained; (2) compliance with laws, regulations and other compliance requirements, including requirements imposed pursuant to grant agreements, can be demonstrated; (3) funds, property and other assets are safeguarded against loss from unauthorized use or disposition, including use or disposition contrary to any grant agreements; and (4) all BBBSA staff receive the financial training and supervision appropriate to their role within the organization, so that BBBSA can effectively implement these financial controls.

The new internal controls are set forth in the *Financial Management System and Internal Controls Policy*, which includes comprehensive policies and procedures governing the following subject areas:

Financial system: The enhanced procedures associated with BBBSA's overall financial system will ensure that the organization has the ability to generate accurate, timely and complete reports of the financial activities for each program or project; that accounting entries are entered into the BBBSA financial system contemporaneously, and such entries are

adequately coded to identify the source and use of grant funds; and that grant funds are safeguarded and may only be disbursed for grant-related expenditures for which appropriate supporting documentation and approvals have been obtained. BBBSA will monitor the effectiveness of its financial system and implement updates if needed.

Grants management: BBBSA's enhanced grants management policies and procedures ensure that the organization supervises and monitors the receipt and use of grant awards, so that all expenditures and activities are in accordance with applicable grants, including through the following:

- Drawdowns and cash management: Pursuant to its *Federal Award Drawdown Policy*, discussed in more detail in response to Recommendation No. 11, BBBSA has implemented procedures providing that drawdowns from future Federal agency grants will be requested on a reimbursement basis, and will be managed to minimize the time between drawdown and disbursement. On a monthly basis, BBBSA will identify drawdown requests based on monthly reports of actual expenditures at the BBBSA and subrecipient levels, with such reimbursements to be made immediately or returned to the awarding Federal agency.
- Disbursement procedures: BBBSA requires all expenditures to be supported by contemporaneous source documentation, and, if grant-related, certification that any grant-related expenditure is in accordance with the approved grant budget.

Implementation of these improved procedures to date includes the following:

- Disbursement forms and approval: Effective January 1, 2013, (1) every request for disbursement by a BBBSA employee or consultant must indicate the grant or grants to which the request applies, and (2) the Finance staff review all disbursement requests to verify that proper supporting documentation has been included, and that the expenditures are in accordance with approved grant budgets. Additional new compliance measures include: (1) effective May 1, 2013, both the employee and his or her supervisor must approve the request, thus subjecting the expense to an additional level of review, and (2) under a recently approved requirement, both the requesting employee and supervisor must certify, at the time of submission, that the expenditure is in accordance with the approved grant budget. To assist employees and their supervisors with this certification, the Finance department will provide all employees and their supervisors approved to work on a particular grant with a monthly comparison of actual expenditures to date to the approved grant budget.
- Travel expenditures: BBBSA will communicate to its staff which travel costs are allowable or unallowable under Federal grant requirements. BBBSA will also require staff to complete a travel expense report in order to obtain reimbursement, and such form will require receipts or other supporting documentation to substantiate the reimbursement amount. The form will

require supervisor review and approval, as well as the employee's certification, to ensure travel expenses are contemporaneously linked to a grant, if applicable, and are allowable expenses in accordance with the grant budget and under Federal rules. BBBSA's corporate credit card reconciliation form similarly requires supervisory approval, supporting documentation, grant-related information and, if grant-related, certification that grant-related expenses are in accordance with the grant budget.

- Personnel and fringe benefit expenditures: As described in more detail in its *Timekeeping Policy* and in response to Recommendation No. 6, effective January 1, 2013, all employees must enter all time worked, including on activities related to grants, into its ADP time entry system. Other types of employee benefits and requests for any personal reimbursements claimed by employees must be supported with source documentation and will require supervisory review and approval to ensure the expenses are allowable in accordance with the grant budget.
- Financial systems entry: As of January 1, 2013, at the time of processing for deposit or reimbursement, Finance staff enter all grant-related expenses into BBBSA's accounting system tagged to the designated grant to ensure that the accounting system accurately and completely tracks grant-related expenses. This ensures the segregation of grant-related funds from other sources, as well as creates and preserves a history of transactions relating to each grant.
- Budget controls: Through its *Grant Adjustment and Budget Modification Policy* and as described in response to Recommendation No. 12, BBBSA will regularly monitor the administration and disbursement of grant funds, including a monthly reconciliation of actual costs against budgeted costs and, in the case of Federal awards, will obtain advanced agency approval in the event of certain budget or programmatic deviations.
- Reporting: Under the *Grant Reporting Policy* and as described in more detail in response to Recommendation No. 14, BBBSA will ensure the accurate and timely submission of financial and programmatic reports required by the funder, including as required by applicable law, regulations and awarding agency requirements in the case of Federal grants.
- Subrecipient monitoring: Pursuant to the *Subrecipient Monitoring Policy* and as described in more detail in response to Recommendation No. 5, BBBSA requires subrecipients to have systems in place to accurately account for and monitor the use of award funds, and to comply with applicable grant requirements, including requirements associated with Federal grants. BBBSA requires that subrecipients submit detailed budgets, report actual expenditures in accordance with grant budgets to receive drawdowns of Federal funds, submit documentation regarding internal financial controls for BBBSA review and approval, provide ongoing reports regarding grant

activities, participate in trainings on programmatic and financial issues, allow site visits, and respond to information requests to enable BBBSA to monitor their activities.

As described in more detail in response to Recommendation No. 5, BBBSA is requiring all subrecipients, prior to receiving any Federal funds through BBBSA, to, among other things, (1) provide BBBSA with information regarding their systems of internal controls for review and approval by BBBSA, (2) submit detailed budgets in accordance with Federal law, regulations and agency requirements, (3) attend training provided by BBBSA on financial management of Federal grants, (4) obtain certification that the subrecipient's CEO or CFO (or other most senior member of the Finance department) has attended DOJ Grants Financial Management Training, and (5) submit to enhanced monitoring processes and procedures.

- **Asset and property management:** The BBBSA *Property Policy*, described in more detail in response to Recommendation No. 13, governs the purchase and use of property, requires the purchase of property using Federal grant funds to be pre-approved by the awarding agency and requires that, upon purchase, BBBSA will only use such property for grant purposes or other purposes pre-approved by the awarding agency. Further, the policy requires that adequate documentation regarding the property be maintained throughout its lifecycle.

Finance staff training, access to financial system and supervision: BBBSA Finance staff and appropriate members of the management team are required to participate in all financial trainings, and obtain all financial certifications, offered by an awarding Federal agency. BBBSA also ensures the security of its financial system and protects access to grant funds by limiting access to the financial management system to only those Finance staff who have undergone training regarding the use of the financial system, grant management and relevant grant award requirements. BBBSA procedures require that financial duties be distributed among multiple people to ensure protection from fraud and error, and that appropriate documentation of all expense approvals be maintained.

- **Staffing changes:** BBBSA has implemented a complete overhaul of its Finance department with the hiring in early 2013 of a new Senior Director of Finance, staff accountant and A/P clerk, as well as the recent hiring of an Associate Director of Grants Administration (responsible for various financial matters associated with grant operations). In addition, BBBSA is in the process of hiring a new CFO (who will be required to ensure that BBBSA's financial reporting and accounting satisfy grant requirements and government contracts) and has terminated the two most senior members of the Finance department from the Fall of 2012.
- **Agency-specific financial training:** As described above, BBBSA policy now requires that Finance staff and appropriate members of the management team receive agency-specific financial training. As of May 2013, all members of the Finance staff and senior BBBSA management have completed DOJ Grants Financial Management Training, which will further assist BBBSA in complying with OJP grant requirements. In addition, as part

of the subrecipient training described in more detail in response to Recommendation No. 5, BBBSA now requires that the CEO or CFO (or the other most senior member of the Finance department) of each subrecipient entity also be certified in DOJ Grants Financial Management Training in order to be eligible to receive OJP funding from BBBSA.

- Training on BBBSA financial systems and policies provided in this response: Under supervision of the new Senior Director of Finance, all BBBSA Finance staff obtain training on the BBBSA financial system, including instruction and ongoing support directly from vendors, as needed. In addition, non-Finance employees obtain financial training as appropriate pursuant to their positions including, (1) training on the disbursement process (for example, trainings in December 2012 and January 2013 related to the new disbursement procedures, including for grant-related disbursements), and (2) training on the new timekeeping system and approval processes. Further, to ensure that all BBBSA employees have a basic familiarity with the financial responsibilities associated with BBBSA's status as a Federal grant recipient, BBBSA intends to provide organization-wide training on these issues, including all the policies described in this response, so that all employees, regardless of role, are able to actively participate in BBBSA's compliance with Federal grant requirements going forward.

5. Recommendation No. 5: Ensure that BBBSA documents and implements policies and procedures for subrecipient monitoring.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

BBBSA has approved a *Subrecipient Monitoring Policy* to ensure subrecipients provide accurate, timely and complete programmatic and financial disclosure to BBBSA of activities undertaken pursuant to subawards, and to ensure that the programmatic and financial requirements of subawards are fulfilled. The policy also establishes a BBBSA-wide standardized process for the pre-qualification of subrecipients, as well as the oversight and obligations of qualified subrecipients. In order to achieve these goals, the *Subrecipient Monitoring Policy* sets forth the policies and procedures for, among other things:

- **Pre-award qualification and selection procedures:** BBBSA conducts a thorough selection process for Federally funded projects in accordance with applicable procurement guidelines, including a competitive selection process, where required. Prior to receiving Federal funding through BBBSA, subrecipients must (1) provide BBBSA with detailed budgets to ensure that BBBSA funding awarded to subrecipients is based on specific projected costs; (2) submit detailed information regarding its finances and internal controls, so that BBBSA can assess a subrecipient's financial status and financial management systems to ensure that the subrecipient is able to provide accurate, timely and complete reporting of financial and performance results of the subaward, including, in the case of a subaward of Federal funds, segregation of Federal funding and related

expenditures to ensure no commingling of funds, and (3) demonstrate that personnel have received appropriate financial training.

- Budget submissions: In accordance with new requirements implemented by BBBSA in January 2013, all subrecipients who received a subaward of FY 2013 OJP funding from BBBSA have submitted detailed budgets for BBBSA's review and approval.
- Review of internal control procedures: Effective January 2013, BBBSA requires each subrecipient to submit documentation of internal control procedures to ensure that the subrecipient is able to provide accurate, timely and complete reporting of financial and performance results of the subaward, including, in the case of a subaward of Federal funds, segregation of Federal funding and related expenditures to ensure no commingling of funds. As of May 10, 2013, over 70% of subrecipients that have received OJP funding from BBBSA have submitted documentation of internal control procedures for BBBSA review. No future Federal funds will be disbursed to any subrecipient that has not submitted documentation of internal control procedures for review and has had such documentation approved by BBBSA.
- Subrecipient training and support to ensure compliance with Federal funding requirements: BBBSA provides training to its subrecipients to ensure full understanding and compliance with BBBSA and funder requirements, including Federal requirements as applicable. BBBSA also provides regular support by telephone consultation, blast emails on topics of interest, affinity group calls, webinars and site visits.
 - Subrecipient training: In late 2012 and early 2013, BBBSA provided multiple trainings regarding agency-specific performance and financial requirements to subrecipients of OJP funding (to assist them in compliance once OJP funds are released), and published a BBBSA Grant Guide which contains financial and programmatic compliance requirements, including OJP-specific requirements. BBBSA is currently updating this Grant Guide to reflect the comprehensive policies and procedures now being put into place with regards to performance and financial management. In addition, all subrecipients are required to have at least one member of senior management – the CEO or CFO (or other most senior member of the Finance department) – certified in DOJ Grants Financial Management Training prior to disbursement of OJP grants. (Over half of subrecipients have already been certified and all certifications are on track to be completed prior to future release of OJP funds.)
- Financial reporting and monitoring procedures: Subrecipients must submit monthly financial reports which will include information on actual costs incurred compared to each budget line item (with variances explained), and BBBSA will benchmark these reports against approved budgets. As explained in more detail in response to Recommendation No. 11, BBBSA will request drawdowns with respect to subrecipient

expenditures on a reimbursement basis based on subrecipient financial reports. In addition to the financial pre-qualification procedures described above (including budget and internal controls documentation submission), subrecipients must (in addition to monthly financial reporting) submit to ongoing financial desk audits and fiscal reviews, which will include, but not be limited to, the review of personnel management, payroll, accounting, budget, and cash management. Subrecipients identified as high-risk will be subject to additional monitoring procedures. All subrecipients must submit annual audit reports; if such audit reports contain adverse findings, such audit reports will be tagged and tracked, and then BBBSA's grantee management team will work with the subrecipient to ensure that the subrecipient takes appropriate corrective action. Depending on compliance with the above requirements, BBBSA will evaluate whether the subrecipient should be classified as high-risk, or whether an adjustment to the subaward is required.

As described above, BBBSA is already in the process of reviewing and approving subrecipient internal controls and detailed budgets for all planned subrecipients of FY 2013 funding, in the event of future release of grant funds.

In addition, all subrecipients have been provided with new monthly financial reporting forms and have been provided with detailed instructions on which costs are eligible for reimbursement, but have been instructed to not submit such forms while OJP funds are frozen.

- Performance reporting and monitoring procedures: Subrecipients must submit periodic and year-end performance reports, which are tracked and reviewed by the BBBSA grantee management team. Subrecipients are also required to provide immediate written notification of material changes. The BBBSA grantee management team will monitor these reports to determine if subrecipients are meeting, among other things, performance goals and deliverables, grant-specific expectations and requirements, BBBSA standards of practice, grant benchmarks and deadlines, and reporting requirements. In addition to written reports, monitoring activities include site visits, desk reviews, telephone and email consultations, and requests for additional information, which are all are closely tracked and periodically audited.

Subrecipients have already been provided with updated programmatic reporting forms for submission in the event of future release of OJP funds.

- Enhanced monitoring and support for high-risk recipients: Using risk indicators (for example, failure to submit timely financial reports in accordance with approved grant budgets, or failure to meet programmatic milestones), BBBSA identifies subrecipients that may need additional programmatic/performance or financial management monitoring and support, and employs additional site visits, training, documentation requirements, and progress reporting, as appropriate.

- New BBBSA position – subrecipient monitoring: In April 2013, BBBSA hired a new Associate Director of Grants Administration, who is responsible for overseeing all subrecipient compliance with financial requirements. Once BBBSA receives future Federal funding, this individual will be providing the financial monitoring, site visits and support of all subrecipients, including, importantly, for high-risk subrecipients.
- Site visits: BBBSA will conduct periodic site visits of its subrecipients for both performance review and financial review to, among other things, monitor and ensure compliance with BBBSA requirements (including those described above) and assess any challenges facing the subrecipient. Prior to each site visit, the subrecipient is provided an agenda and checklist (except in the case of selected unannounced site visits), and each site visit will be documented by written summary afterwards.
- Compliance sanctions: BBBSA will sanction subrecipients for failure to meet financial requirements or performance goals, as well as failure to comply with the BBBSA subrecipient grant agreement or other requirements imposed on the subrecipients through the affiliate structure. While BBBSA intends to work cooperatively with subrecipients to implement corrective action plans, BBBSA may also take a variety of steps, including suspension or reduction of funding amounts, imposition of high-risk status and enhanced monitoring procedures, or termination of award, depending on the severity of the violation.

6. Recommendation No. 6: Ensure that BBBSA implements policies and procedures that ensure personnel expenditures paid with grant funding are documented as required by the OJP Financial Guide.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

BBBSA has approved and put in place a *Timekeeping Policy* to ensure that all time spent by employees on grant-related activities is tracked accurately, to provide further assurance that employee time is charged to the appropriate grant or funding source and in accordance with the approved grant budget. Such policy became operational on January 1, 2013. In order to achieve these goals, the *Timekeeping Policy* sets out procedures and processes for, among other things:

- Timesheet submission and approval: BBBSA requires each employee to submit timesheets at least biweekly (but no later than the Monday following the end of the pay period), which report all hours worked, including the number of hours worked on each grant. Such timesheets must be reviewed and approved by the employee's direct supervisor within one week of the end of the biweekly pay period. Both the employee and his or her direct supervisor must certify that grant time was spent in accordance with approved grant budgets.

- Rollout of time entry system: Since January 1, 2013, all employees have been required to record all hours, including grant-related hours, in the new time entry system. All time entries are reviewed by the employee's supervisor to ensure that grant-related time is only billed by those employees authorized to work on the relevant grant, and that grant-related time is in accordance with the approved grant budget.
- Training on time entry system: All employees are trained on the ADP timekeeping system as part of their BBBSA orientation, and BBBSA provides "refresher" training at regular intervals, or when determined to be necessary due to employee noncompliance.
 - Training rollout: Prior to launching the time entry system, BBBSA trained all staff on the system to ensure compliance with grant-related timekeeping policies.
- Certification for certain employees working on a single Federal grant: BBBSA now requires that any employee expected to work solely on a single Federal grant complete periodic certifications at least every six months.

BBBSA is currently not receiving Federal funds; BBBSA has identified the employees that would be required to submit such certifications, in the event of future release of OJP funds.

- Grant allocations communications: BBBSA will require the Finance department to provide employees and their direct supervisors with monthly communications regarding (1) the percentage time/average number of hours that the employee is expected to devote to the grant during the month, and (2) a comparison of actual expenditures to date against the approved grant budget. This information allows each employee/supervisor to (1) provide approval of timesheets, and (2) approve reimbursement requests (as described above, employees and their supervisors are required to certify that all expenditures have been made in accordance with the approved grant budget).

BBBSA began sending communications to employees containing time allocation between grants in January 2013; future monthly communications will also include a comparison of actual expenditures to the approved grant budget.

- Approved grant personnel: Employees are only permitted to enter, and supervisors are only permitted to approve, grant time on an employee's timesheet where such employee is identified on the respective approved grant budgets (as listed in the monthly communication from the Finance department). The Finance department then verifies that no unauthorized employee time is charged to a grant, as part of its reconciliation process. Any changes in the staffing on Federal grants is accomplished as specified under the *Grant Adjustment and Budget Modification Policy*, described in more detail in response to Recommendation Nos. 8 and 12.

- Employees authorized to conduct lobbying activities: BBBSA restricts lobbying activities to members of the External Relations department. In addition to the enhanced employee/supervisor time entry approval requirements, the Finance department also reviews time entered to ensure that members of the External Relations department do not charge time for any lobbying activities against a Federal grant or other restricted funding source.
- Grant allocations reconciliation: Before charging employee time against an approved grant, the Finance department reconciles employee time against approved grant budgets, and against the monthly communication provided to employees regarding approved allocation of time pursuant to the respective budget.

The grants allocation reconciliation process was implemented concurrently with the launch of the new time entry system in January 2013.

In addition, as described in the *Financial Management and Internal Controls Policy* (discussed in response to Recommendation No. 4), effective January 1, 2013, (1) every request for disbursement by a BBBSA employee or consultant must indicate the grant or grants to which the request applies, and (2) the Finance staff review all disbursement requests to verify that proper supporting documentation has been included, and that the expenditures are in accordance with approved grant budgets. Additional new compliance measures include: (1) effective May 1, 2013, both the employee and his or her supervisor must approve the request, thus subjecting the expense to an additional level of review, and (2) under a recently approved requirement, both the requesting employee and supervisor must certify, at the time of submission, that the expenditure is in accordance with the approved grant budget. To assist employees and their supervisors with this certification, the Finance department will provide all employees and their supervisors approved to work on a particular grant with a monthly comparison of actual expenditures to date to the approved grant budget.

7. Recommendation No. 7: Ensure that BBBSA implements time and effort tracking procedures that ensure employees document time spent on grant-related activities.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

As described in detail in response to Recommendation No. 6, BBBSA adopted a *Timekeeping Policy* and implemented a new timekeeping system and procedures, which require employees to enter all time worked, including time worked on grant-related activities, on a weekly basis, but no later than the Monday following the end of the pay period. Time entries must be reviewed and approved by both the employee and supervisor as being in accordance with the approved grant budgets. To assist employees and their supervisors with this process, the Finance department circulates monthly communications to the employees/supervisors

which contain, among other things, (1) the grants on which the employees are authorized to work, and (2) the percentage of employee time budgeted to each grant.

After receiving the employee/supervisor-approved timesheets, the Finance department performs a verification that (1) the employee is identified on the respective approved grant budgets, and (2) hours worked are in accordance with the approved grant budget.

Once the Finance staff verify the employee's time, such staff allocate the appropriate percentage of the employee's salary/taxes/benefits to each grant.

8. Recommendation No. 8: Ensure BBBSA implement policies and procedures that ensure employees paid with grant funds are identified on approved grant budgets.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

As described in detail in response to Recommendation Nos. 6 and 7, BBBSA has adopted an enhanced *Timekeeping Policy* and implemented improved timekeeping procedures. There are now multiple safeguards in place to ensure that employees paid with grant funds are on approved grant budgets, including:

- On a monthly basis, the Finance department informs employees and their supervisors of the grants on which employees are approved to work in the next month, per the approved grant budget.
- When submitting timesheets, employees and their supervisors must certify that all time worked is in accordance with the respective approved grant budget(s).
- Once timesheets are received, the Finance department verifies that all employees reporting time to a particular grant are authorized on the grant budget; only the salary/taxes/benefits of such authorized employees are eligible to be charged against such grant.

9. Recommendation No. 9: Require that BBBSA clearly document and maintain the analysis, negotiation, justification, and monitoring for grant-funded consultants.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

BBBSA has approved a *Policy for Hiring and Oversight of Consultants and Other Contractors* to ensure that, in the case of Federal grants, these activities are conducted in a manner that is consistent with Federal law, regulations and grant requirements. In the case of non-Federal grants, Federal law and regulations still prove useful in ensuring the propriety of hiring and oversight of consultants and other contractors. In order to achieve these goals, the

Policy for Hiring and Oversight of Consultants and Other Contractors sets out the policies and procedures for, among other things:

- Initiating a procurement request for a consultant/contractor: The BBBSA employee seeking to procure a consultant/contractor (the "Procurement Manager") initiates a request to hire a contractor by submitting for approval by the COO or CFO (or other most senior member of the Finance department), a written Requisition which specifies what type of procurement method should be used. In evaluating potential contractors, such contractors must be checked against the Lists of Parties Excluded from Federal Procurement and Nonprocurement Programs, and any contractors involved in the development of the procurement will be similarly excluded from the bidding list.
- Procurement method – selection of sole source versus competitive bidding: When a contractor is to be hired using Federal funds, the BBBSA Procurement Manager will be required to use competitive bidding, unless there is an acceptable, documented reason to use another method (where such documented reason exists and the contract is a sole source contract over \$100,000, BBBSA must obtain prior approval from the awarding agency). For the hiring of any contractor using non-Federal funds, BBBSA requires the Procurement Managers have management approval to use a sole source procurement process for contracts exceeding \$100,000.
- Competitive bidding process and contract: As part of the competitive bidding process, BBBSA will require that candidates' proposed rates be no higher than market rate, and that such proposed rates are permissible under Federal standards. BBBSA will negotiate rates separately with each consultant and, while it is important to find the lowest price for the contracted service, price alone is not determinative. In addition, BBBSA will require that candidates demonstrate an understanding of the proposed scope of work and an ability to successfully perform the work as outlined in the contracts, within the established project timeframe and, for grant-related work, in accordance with the approved grant budget. As part of the contract approved by BBBSA legal counsel (which shall specifically identify the grant(s) through which the contract is being funded), the selected contractor will be required to submit invoices for compensation which detail the hours worked and explicitly describe the grant-related nature of activities and expenditures.
- Monitoring and evaluation: BBBSA will perform a variety of activities to ensure proper oversight of the contractor, including, among other things, monitoring of performance, written evaluations and ensuring, for grant-related work, that the contractor is working in accordance with the approved grant budget. BBBSA's requirement that all expenditures (including travel-related expenditures) be supported by contemporaneous source documents and, if grant-related, in accordance with the approved grant budget also applies to any consultant or contractor's time or expenses. Any changes to the contractor's scope of work, or otherwise, must be in accordance with the *Grants Adjustment and Budget Modification Policy*.

10. Recommendation No. 10: Ensure BBBSA implements policies and procedures for accurately calculating and charging indirect costs to Department of Justice grants.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

BBBSA has approved an *Indirect Costs Allocation Policy* to define and require the proper allocation of indirect costs for Federal grants. In order to achieve these goals, the *Indirect Costs Allocation Policy* sets out policies and procedures for, among other things:

- Indirect cost proposal and negotiated agreement: BBBSA requires that the Finance department will develop an annual indirect cost proposal and negotiate an indirect cost rate with the relevant funder, and formalize the indirect cost rate in a written agreement.
- Cost recording and calculation of indirect costs for Federal grants: As described throughout this response, BBBSA is implementing comprehensive reforms to its financial management system, which will ensure that all grant-related costs are contemporaneously documented, receive appropriate approvals, and are in accordance with approved grant budgets. As part of its enhanced processes, the Finance department, with appropriate oversight and training, will contemporaneously code expenditures related to Federal grants as direct or indirect, and allowable or unallowable. The Finance department must follow detailed procedures to ensure appropriate calculation of indirect costs; accuracy of the resulting indirect cost calculations will be assured as all direct expenses will be properly allocated to the grants.
- Compliance procedures: The Finance department will receive ongoing guidance and training regarding the indirect cost policies and procedures, and the appropriateness of indirect costs charged will be verified through periodic internal and external audits.

Due to the implementation of these procedures, BBBSA is prepared to calculate accurately charges of indirect costs to OJP grants in the event Federal funds are unfrozen.

11. Recommendation No. 11: Ensure BBBSA establishes and adheres to written policies and procedures for (1) identifying drawdown amounts and (2) minimizing the time between drawdown and disbursement in accordance with the Financial Guide.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

BBBSA has approved a *Federal Award Drawdown Policy* to accurately identify amounts for drawdown on a reimbursement basis, and minimize the time between drawdown and

disbursement. In order to achieve these goals, the *Federal Award Drawdown Policy* sets out policies and procedures for, among other things:

- **Identifying drawdown amounts:** Future drawdown amounts will be requested by BBBSA based on expenses actually incurred and supported by appropriate documentation, for both BBBSA's eligible direct and indirect costs, as well as the eligible costs of its subrecipients. Prior to any drawdown request, the Finance department must also verify that the drawdown amount is in accordance with the approved grant budget and/or determine whether an adjustment to the approved grant budget must be requested.

As described above, BBBSA has implemented policies and procedures to ensure that (1) any disbursements for grants are on approved grant budgets (see *Financial Management and Internal Controls Policy*, discussed in connection with Recommendation No. 4), (2) any employee time charged to a grant is in accordance with an approved grant budget (see *Timekeeping Policy*, as discussed in connection with Recommendation Nos. 6-8), (3) subrecipients report actual expenditures in accordance with approved grant budgets (see *Subrecipient Monitoring Policy*, as discussed in connection with Recommendation No. 5), and (4) indirect costs are calculated based on actual allowable costs incurred (see *Indirect Costs Allocation Policy*, as discussed in connection with Recommendation No. 10). Collectively, these enhanced policies and procedures ensure that reimbursements requested are based on supported, actual costs incurred.

- **Timing of drawdown funds:** BBBSA will request reimbursement of BBBSA and subrecipient expenses through the Grants Management System, and will disburse such funds immediately upon receipt. The Finance department is required to generate a report of available Federal funds in BBBSA accounts seven (7) days after receipt of funds, to ensure that Federal cash on hand is kept at or near zero, and are required to investigate the reason for any Federal funds that have not been spent or disbursed. Any funds not spent within ten (10) days of receipt will be immediately returned to the Federal government, as well as any interest calculated on an annual basis.

Although BBBSA is not currently receiving any Federal funds, these enhanced policies and procedures will ensure the proper implementation of this recommendation in the event Federal funds are unfrozen.

12. Recommendation #12: Ensure BBBSA implements policies and procedures that comply with all budget-related requirements, including the monitoring of grant budgets so that only reimbursement requests are made for actual expenditures approved in the budget by cost category and amount.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

As described above, BBBSA has implemented policies and procedures to ensure that (1) any grant-related deposits are restricted and any disbursements for grants from those restricted funds are on approved grant budgets (see *Financial Management and Internal Controls Policy*, discussed in connection with Recommendation No. 4), (2) any employee time charged to a grant is in accordance with an approved grant budget (see *Timekeeping Policy*, as discussed in connection with Recommendation Nos. 6-8), (3) subrecipients report actual expenditures in accordance with approved grant budgets (see *Subrecipient Monitoring Policy*, as discussed in connection with Recommendation No. 5), and (4) indirect costs are calculated based on actual allowable costs incurred (see *Indirect Costs Allocation Policy*, as discussed in connection with Recommendation No. 10). Collectively, these enhanced policies and procedures ensure that drawdown amounts requested are based on supported, actual costs incurred.

In addition, BBBSA has adopted the *Grant Adjustment and Budget Modification Policy* to ensure that the organization monitors the operation of grants and tracks actual expenditures against the approved award budgets such that, in the case of a Federal grant, BBBSA receives appropriate Federal agency approval for budget modifications and other changes to its Federal grants through the filing of Grant Adjustment Notices (“GANs”). In order to achieve these goals, the *Grant Adjustment and Budget Modification Policy* sets out the policies and procedures for, among other things:

- **General GAN requirements:** The policy defines which programmatic or financial changes are significant enough to require pre-approval from the awarding Federal agency, thus ensuring that BBBSA programs are in compliance with budget and activities approved by the awarding Federal agency.
- **Budget monitoring and modification procedure:** BBBSA actively monitors its actual expenditures, to ensure that GANs are filed as required for any anticipated deviations from budget, scope of grant, named employees or contractors, or otherwise. BBBSA performs a monthly budget reconciliation by comparing the month’s actual expenditures by cost category to the approved grant budget, as well as by comparing year-to-date actual expenditures by cost category to year-to-date budgeted expenditures. If, based on trends in the monthly and year-to-date budget reconciliations, it appears actual expenditures will exceed 10% of the budget for a single cost category within the next month, BBBSA considers this a budget deviation that will require inquiry and corrective action through a GAN.

While BBBSA is not currently receiving Federal funds, these enhanced policies and procedures will enable BBBSA to monitor future grant budgets and file GANs for any future changes, as needed.

13. Recommendation No. 13: Ensure BBBSA implements policies and procedures for the acquisition, inventory, and disposal of accountable grant-funded property.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

BBBSA has adopted a *Property Policy* to ensure that BBBSA appropriately accounts for and monitors the acquisition, maintenance and disposal of all equipment and related property. In order to achieve these goals, the *Property Policy* sets out the policies and procedures for, among other things:

- **Acquisition of property:** BBBSA must receive prior approval (such as through a request in the grant proposal) from the awarding Federal agency to acquire property using grant funds, follow procedures for approvals of the purchase within BBBSA, and ensure that efforts are made to purchase the product at the lowest possible price, such as through the evaluation of multiple vendors. As with any grant-related purchase, the request must (1) indicate the grants to which the request applies, (2) include appropriate supporting documentation and approvals within BBBSA, and (3) be certified by the requesting/approving parties within BBBSA (and verified by the Finance department) that the purchase is in accordance with the approved grant budget.
- **Use of property:** BBBSA ensures the proper use of property acquired using Federal funds, including property acquired by subrecipients pursuant to subawards of Federal funds, shall be used solely for purposes authorized by the awarding Federal agency. Upon conclusion of the Federal grant agreement, such property can be used for other BBBSA or subrecipient projects, provided that priority is given to the awarding agency and other Federally sponsored projects.
- **Inventory/maintenance:** The BBBSA Business Technology Solutions department maintains an inventory database, and takes a physical inventory of all property and reconciles with its records at least once every year. BBBSA employees are responsible for monetary losses associated with loss, damage or theft of accountable property.
- **Disposal:** All property acquired with Federal funds must be disposed of in accordance with Federal law, regulations and agency requirements, with the appropriate disposal method dependent upon market value of the asset at the time of proposed disposal.

Implementation of these improved procedures to date includes the following:

- **Property records:** Effective May 2013, BBBSA updated the property records contained in its accounting system to include all information required by Federal law and regulation regarding accountable property purchased with Federal funds, including description, serial number, source, identification of the title holder,

acquisition date, cost, percentage of Federal participation in the cost, location, use and condition and disposition data.

- **Inventory:** In February 2013, BBBSA took a physical inventory of all accountable property and reconciled the results with the property records contained in its accounting system.
- **Staff training:** To ensure compliance with the acquisition, use, inventory, maintenance and disposal procedures and documentation requirements, particularly those relating to property to be acquired and/or acquired with Federal funds, BBBSA intends to provide organization-wide training on BBBSA's *Property Policy*. This training will be under the supervision of the new Senior Director of Finance.

14. Recommendation No. 14: Ensure BBBSA implements policies and procedures to ensure FFRs ["Federal Financial Reports"] are submitted based on accurate information and implements and adheres to policies and procedures to ensure progress reports are submitted timely.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

BBBSA has adopted a *Grant Reporting Policy* to ensure the timely and accurate reporting of financial and programmatic information to funders in accordance with both Federal and non-Federal reporting requirements. In order to achieve these goals, the *Grant Reporting Policy* sets out the policies and procedures for, among other things:

Roles and responsibilities: The enhanced procedures associated with BBBSA's grant reporting system require that the Fund Development ("FD") department has overall responsibility to ensure implementation and adherence to the policy and, to that end, will ensure that all reporting deadlines are incorporated into the master FD department calendar and discussed at the monthly FD department meetings. The Vice President of External Affairs will appoint a Project Manager ("PM"), unless a PM was already named in the approved grant, who, with the assistance of the Finance department, will be responsible for overseeing compliance with applicable grant reporting requirements and submission of grant reports. Thus, through the PM, BBBSA will ensure that the appropriate BBBSA staff and project team members are timely notified of upcoming reporting needs.

Accuracy of reports: BBBSA's enhanced financial management and monitoring policies ensure that BBBSA is able to document and collect thorough and accurate information including from its subrecipients. For example:

- BBBSA's *Financial Management System and Internal Controls Policy* (discussed in connection with Recommendation No. 4) ensures that BBBSA is able to generate accurate, timely and complete reports of the financial activities for each program or project since, for example, accounting entries are entered into the BBBSA financial

system contemporaneously and adequately coded to identify the source and use of grant funds.

- BBBSA's *Subrecipient Monitoring Policy* (discussed in connection with Recommendation No. 5) ensures that subrecipients submit monthly financial reports which include information on actual costs incurred compared to each budget line item (with variances explained).
- BBBSA's *Federal Award Drawdown Policy* (discussed in connection with Recommendation No. 11) ensures that drawdown amounts are identified by eligible direct and indirect costs and eligible costs of subrecipients, with supporting documentation.

Types of reports: As described throughout this response, BBBSA's enhanced financial management systems and subrecipient monitoring procedures, among other policies, ensure the timely and accurate submission of the following types of reports:

- Financial reports: The FFR Standard Form 425 (SF-425), unless otherwise instructed by the Federal agency sponsoring the project, or any other reports indicated in a funding agreement; any additional reporting requirements that may be required if BBBSA is designated as a high-risk grantee; or, for non-Federal awards, financial reports in the format and frequency specified in the terms and conditions of the funding agreement or, if not specified, submission of a standard BBBSA financial report.
- Progress reports: Programmatic progress reports to funders in accordance with the terms and conditions of the award documents, in order to provide information relevant to the performance and activities of a project and as a means to monitor performance.
- Additional reporting requirements: Reports required under the Federal Funding Accountability and Transparency Act of 2006 (FFATA) and regulations thereof, which require a FFATA subaward report through the FFATA Subaward Reporting System by the end of the month following any month in which BBBSA awards any subgrant equal to or greater than \$25,000.

Implementation of these improved procedures to date includes the following:

- Treatment of deadlines: Even though BBBSA's Federal funding is currently frozen, BBBSA is tracking deadlines for FFRs and Progress Reports on the master FD department calendar and including them as agenda items at the monthly FD department meetings.
- Timely submission of FFRs: Even though BBBSA's Federal funding is currently frozen, BBBSA is tracking complete and accurate grant-related information relevant to the FFRs for purposes of timely and accurate submission on or before the next due date (July 31, 2013).

- Timely submission of Progress Reports: Even though BBBSA's Federal funding is currently frozen, BBBSA is tracking complete and accurate grant-related information relevant to the Progress Report for purposes of timely and accurate submission on or before the next due date (June 30, 2013).

15. Recommendation No. 15: Ensure BBBSA implement policies and procedures to identify, track, manage, and use program income in accordance with the Financial Guide requirements.

BBBSA concurs with this recommendation and has already made significant progress towards systemic, policy and procedural improvements, as described below.

BBBSA has adopted a *Program Income Policy* to ensure that BBBSA appropriately identifies, treats, records and reports program income associated with funds received from Federal agencies. In the event that a BBBSA program generates income for the purposes of Federal law, the policy sets forth the requirements for how that program income shall be used, in accordance with Federal awarding agency regulations or the terms and conditions of the award.

Specifically, BBBSA's *Program Income Policy* provides that program income earned during the project period shall be retained by BBBSA and, depending on award agency regulations or the terms and conditions of the award, will be generally treated in one of three ways: (1) additive, or added to funds committed to the project by the awarding agency and used to further program objectives; (2) matching, or used to finance the non-Federal share of the project or program; or (3) deductive, or deducted from the total project allowable cost in determining the net allowable costs on which the Federal share of costs is based. BBBSA's policy also requires a determination as to whether the program income associated with an award must be reported to the sponsor and if so, inclusion in official financial reports and/or invoices submitted to the sponsor.

While BBBSA's Federal funding is currently frozen, BBBSA requires compliance with its *Program Income Policy* effective immediately.

V. If Continued Funding is Unavailable, At-Risk Youth Will Be Harmed

1. Lack of Funding Adversely Impacts At-Risk Children

Numerous studies have shown that mentoring benefits children's emotional and psychological well-being, peer relationships, academic attitudes and grades.⁵ Mentoring may also help reduce risky behavior, such as drug and alcohol use or violence. Researchers have

⁵ See generally Carla Herrera, David L. DuBois and Jean Baldwin Grossman, *The Role of Risk: Mentoring Experiences and Outcomes for Youth with Varying Risk Profiles* (A Public/Private Ventures project distributed by Manpower Demonstration Research Corporation (MDRC), 2013) (hereinafter "Role of Risk"); BBBSA 2013 Youth Outcomes Report.

found strong evidence that community-based mentoring helps to alleviate depression and improves children's emotional and psychological well-being. This is a significant outcome for the long-term health of children because "deficits in these areas can make children vulnerable to more serious problems down the road. For example, childhood depression is associated with suicidal behavior, academic and social difficulties, and increased risk for substance abuse and teen pregnancy Low peer acceptance and social isolation are similarly associated with dropping out, criminal behavior and health problems later in life."⁶

In addition to the extensive studies on the positive effects of mentoring on at-risk youth, researchers have also begun to focus on the detrimental consequences when mentoring relationships terminate prematurely. There is no doubt that many mentoring relationships do not endure for years and may last only a few months. A mentoring relationship may end early for a number of reasons, including when children transfer to another school or community. We know that mentoring relationships that last longer than 6-12 months correlate with more positive behaviors in children. For example, in community-based relationships, the strongest gains were evidenced for youth who were in a mentoring relationship for 12 months or longer, with progressively fewer gains reported as the match length diminished. If the match terminated at three months or less, there were drops in various indicators, including self-worth.

More importantly, children are particularly vulnerable to early terminations of the mentoring relationship that are abrupt and unexplained. Many of the at-risk youth in BBBSA's mentoring programs come from single-parent homes and have suffered the loss of regular contact with an adult. Researchers have noted that such youth "may feel particularly vulnerable to, and responsible for, problems in subsequent adult relationships."⁷ Abrupt terminations of mentoring relationships may leave children worse off than at the beginning of the relationship, feeling rejected and responsible, leading to negative behavior. As one researcher noted, "[i]rrespective of relationship histories, all youth may show certain vulnerabilities to early terminations. Adolescence is a life stage during which issues of acceptance and rejection are especially salient. To the extent that adolescents have identified with their mentors, and have begun to value the relationship, they may feel profound disappointment when the relationship does not progress. Feelings of rejection and disappointment, in turn, may lead to a host of negative emotional, behavioral, and academic outcomes."⁸

In addition, abrupt terminations have a negative effect on the mentors. A large majority of mentors report disappointment that their match had closed. Although BBBSA mentors who work with at-risk youth are more likely to want to mentor again, abrupt terminations may dissuade mentors from continued involvement in mentoring. It is also possible that mentors

⁶ *Id.* at 64.

⁷ Jean B. Grossman and Jean E. Rhodes, "The Test of Time: Predictors and Effects of Duration in Youth Mentoring Relationships," *American Journal of Community Psychology*, 199; 200 (April 2002).

⁸ *Id.* at 201.

may try to continue their mentoring informally, which could put children at risk because there would be no oversight or support of the mentoring relationship. Adults providing mentoring to at-risk youth report multiple training and support needs to help with their mentoring relationship.⁹

2. The Impact to Date has Been Significant

The impact of freezing OJP funding has already been felt. Based on preliminary data compiled by BBBSA, 5,754 otherwise successful matches may have to be terminated early because OJP funding is not available. In addition, well in excess of a thousand matches that would have been funded from May through September 2013, now have no funding due to the freezing of OJP funds. While the numbers of children who face a premature end to their BBBSA mentoring relationships, or who may never see a mentoring relationship, should funding not be released are substantial, it is important to remember that behind each "number" there is an actual child. If frozen funds do not begin to flow, thousands more children will be put at risk. Given the very valuable work that BBBSA has performed, and that it is uniquely positioned to perform in the future, it would be shortsighted to allow the current situation to become the death knell of the BBBSA.

VI. Conclusion

As set forth herein, BBBSA has made considerable progress in implementing corrective and remedial measures, including significant personnel changes, the creation and implementation of new and enhanced policies and procedures regarding its financial systems, grants management and internal controls, and training at both BBBSA and the subrecipient level to ensure compliance with applicable law, regulations and agency requirements. BBBSA will continue to work diligently and transparently to address all of the draft audit findings, with the assistance of our compliance counsel and forensic accountants. Moreover, BBBSA's forensic accountants will remain in-house to test the implementation of the new and enhanced policies and procedures and recommend enhancements thereto.

BBBSA respectfully requests that the OIG:

- grant an extension of 60 days before finalizing its report so that our forensics team can (1) undertake further analysis of the questioned costs, and (2) implement the updated policies, procedures and processes; and
- affirm the OIG's commitment to work closely with us in providing the information and support needed by OJP to free up and distribute the remaining \$3,714,838 of grant funds not yet disbursed so they can be used for the purposes originally intended.

⁹ See, for example, Role of Risk, at 68.

We look forward to meeting with the OIG the week of May 27, 2013 or otherwise in the near future to provide additional details regarding our efforts and receive feedback and suggestions in turn.

OFFICE OF JUSTICE PROGRAMS RESPONSE TO THE DRAFT AUDIT REPORT



U.S. Department of Justice

Office of Justice Programs

Office of Audit, Assessment, and Management

Washington, D.C. 20531

JUN -4 2013

MEMORANDUM TO: Thomas O. Puerzer
Regional Audit Manager
Philadelphia Regional Audit Office
Office of the Inspector General

FROM: Maureen A. Henneberg
Director *Maureen Henneberg*

SUBJECT: Response to the Draft Audit Report, *Office of Justice Programs,
Office of Juvenile Justice and Delinquency Prevention Grants
Awarded to Big Brothers Big Sisters of America,
Philadelphia, Pennsylvania*

This memorandum is in reference to your correspondence, dated April 10, 2013, transmitting the above-referenced draft audit report for the Big Brothers Big Sisters of America (BBBSA). We consider the subject report resolved and request written acceptance of this action from your office.

The Office of Justice Programs (OJP) received a copy of the BBBSA's response to the draft audit report, dated May 21, 2013, in which BBBSA management has acknowledged the significance of findings and are engaged in addressing the deficiencies identified during the audit. OJP appreciates that the audit recommendations and questioned costs are substantial, in both nature and amount, and will require a significant effort to properly and fully address. As you know, OJP and the BBBSA management have been working together since notification of the preliminary audit findings. Immediately upon being informed of the preliminary issues by the Office of the Inspector General (OIG), and even prior to receiving the draft report, OJP took concrete steps to mitigate the corresponding risks associated with BBBSA's grant funds, including freezing grant funds on all of BBBSA's active awards as of February 11, 2013. Further, on February 27, 2013, OJP issued a letter to BBBSA notifying them that they had been designated as a Department of Justice (DOJ) high-risk grantee. Award conditions were added to remaining open grants that restrict BBBSA from obligating, expending, or drawing down funds. Additionally, as part of the high-risk designation, BBBSA officials, who are involved in accounting for and administering DOJ grant funds, are required to complete the DOJ-sponsored on-line grants financial management training. To date, the Office of the Chief Financial

Officer (OCFO) confirmed that 15 BBBSA officials and 92 of its subrecipients have successfully completed the on-line grants financial management training.

On March 1, 2013, personnel from OJP's Office of Audit, Assessment, and Management, OCFO, Office of Communications, Office of the General Counsel, and the Office of Juvenile Justice and Delinquency Prevention (OJJDP) held a teleconference with BBBSA management officials to generally discuss the preliminary audit issues, explain the DOJ high-risk designation process and provide technical assistance. During this call, OJP staff advised BBBSA officials that they should consider procuring a forensic auditor to assist them in addressing the various accounting, internal control, and questioned cost issues identified by the OIG during its audit. On April 15, 2013, OJP held a follow-up teleconference with BBBSA management officials, to provide further guidance. On May 9, 2013, OJP, OIG, and BBBSA management and representatives met to further discuss the draft audit report findings. OIG and OJP representatives explained the audit resolution process, and provided information on how each office would work with BBBSA to address the audit recommendations and questioned costs. On May 21, 2013, BBBSA provided OJP with a copy of its recently implemented "Financial and Grants Management Policies" manual, which includes internal controls over its financial management system to ensure that grant-related transactions are accounted for properly. Ongoing communication between OJP and BBBSA staff will continue throughout the audit resolution process, until all recommendations and questioned costs are properly and fully addressed.

The draft report indicates that desk reviews were conducted by OJP's OJJDP in September 2010, September 2011, and June 2012, with no issues related to financial and programmatic compliance found. OJP annual desk reviews, conducted on all active grants, are used to assess progress toward stated project goals and objectives and to review grantee submitted reports and other information in the existing grant file (e.g., correspondence, drawdown data, compliance with special conditions) to determine programmatic and administrative compliance. The standard desk review process does not involve or require obtaining or reviewing grantee source documentation related to financial records or assessing the adequacy of grantee financial management systems or internal controls. In-depth financial monitoring of this nature would occur during an on-site visit by OJP's OCFO.

OJP uses a risk-based approach to determine monitoring priority of its grants and grantees for in-depth monitoring, e.g., on-site visits and/or enhanced desk reviews. Annually, OJP grants are systematically assessed against a set of over two dozen risk factors to determine administrative, financial, and programmatic compliance to identify grantees that may be in need of increased oversight and in-depth monitoring. Each grant is assigned a risk score and an associated monitoring priority of high, medium, or low and OJP grant managers use this monitoring priority as a guideline, while exercising professional discretion, in making their programmatic monitoring plans. As mentioned in the draft report, the BBBSA was not a high-risk grantee during the period of the desk reviews and was not determined to be a high priority risk for monitoring. BBBSA's risk score did not reach a high priority level despite the amount of funding provided to BBBSA due to the following contributing factors: consistent ongoing compliance with reporting requirements; drawdowns were deemed proportionate to reported program activity; program implementation was on track with no noted concerns; it was not a

new grantee within the last three years of risk assessment; and it was not implementing a new program. It should also be noted that during the project period of the grants, BBBSA officials attended, in person, an OCFO Regional Financial Management Training seminar (RFMTS). BBBSA's Finance Director attended the June 2011 RFMTS in Charlotte, North Carolina, and its Associate Director for Grants Administration, attended the February 2012 RFMTS in Phoenix, Arizona.

In addition to the OJJDP desk reviews conducted, on August 14, 2009, OJJDP staff conducted a programmatic monitoring site visit to BBBSA with the primary purpose to review its Agency Information Management (AIM) system. It should be noted that in the latter half of FY 2012, BBBSA was assigned a medium priority for in-depth monitoring, but because the OIG audit was ongoing, OJJDP and the OCFO did not conduct a programmatic or financial on-site visit or enhanced programmatic desk review. OJP is reviewing its current process to determine other approaches, in addition to its risk-based approach for monitoring, that may assist OJP in identifying grantees, like BBBSA, that have significant risks that may not be identified through the risk scoring process and may only be detectable through in-person reviews of source documentation by specially trained financial professionals.

The draft audit report contains 15 recommendations, \$19,462,448¹ in net questioned costs, and \$3,714,838 in funds to better use. The following is OJP's analysis of the draft audit report recommendations and questioned costs. For ease of review, the recommendations are restated in bold and are followed by our response.

- I. **We recommend that OJP remedy the \$19,462,448 in unsupported expenditures resulting from:**
 - (a) **grant drawdowns that were unsupported due to commingling (drawdown of \$19,462,448),**
 - (b) **payments made to subrecipients, from the initiation of the grants to June 27, 2012, due to lack of monitoring how the subrecipients spent the funds (expenditures of \$12,624,008),**
 - (c) **costs associated with personnel and fringe benefits due to lack of time and effort reports (expenditures of \$2,008,405),**
 - (d) **travel expenditures that were not sufficiently documented (expenditures of \$196,059),**
 - (e) **costs of a Native American Mentoring consultant without the required time and effort reports (expenditures of \$19,375),**
 - (f) **costs associated with a Native American Mentoring consultant with no documentation of grant related activity (expenditures of \$11,625), and**
 - (g) **indirect costs not verifiable due to a lack of direct cost data resulting from commingling expenditures (expenditures of \$434,157).**

¹ Some questioned costs were questioned for more than one reason. Net questioned costs exclude the duplicate amount.

OJP agrees with the recommendation. We will coordinate with BBBSA to remedy the \$19,462,448 in unsupported expenditures charged to OJP grants, as specified above. In its May 21, 2013 response, BBBSA stated that they have retained the assistance of a forensic accounting firm, Navigant, and compliance attorneys, Arnold & Porter, LLP, to assist them in tracking the flow of grant funds from receipt to disbursement, and determine whether the questioned grant funds were used for the intended purposes. BBBSA also stated that Navigant is in the process of finalizing its workplan using forensic accounting review and analysis techniques. OJP will work with BBBSA to discuss Navigant's approach and provide input as needed.

2. **We recommend that OJP remedy the \$1,019,818 in unallowable expenditures resulting from:**

- (a) costs associated with the Associate Director of Native American Mentoring position not on the 2009-TY-FX-0047 approved budget (expenditures of \$37,017),
- (b) travel expenditures that were not allowable (expenditures of \$196,059),
- (c) consultant costs due to a failure to ensure that reasonable consultant rates were established on a case-by-case basis (expenditures of \$221,182),
- (d) costs due to an unapproved, non-competitively negotiated rate without justification for the AIM consultant (expenditures of \$79,000), and
- (e) indirect costs that were improperly calculated (expenditures of \$434,157).

OJP agrees with the recommendation. We will coordinate with BBBSA to obtain documentation regarding the questioned expenditures, and will request a final determination from OJJDP regarding the allowability of the expenditures. If the expenditures are determined to be unallowable, we will request that the next Federal Financial Report for the various grants be adjusted and, as necessary, the funds returned to the DOJ. As previously indicated in OJP's response to Recommendation Number 1, BBBSA stated, in its May 21, 2013 response, that they have retained the assistance of a forensic accounting firm, Navigant, and compliance attorneys, Arnold & Porter, LLP, to assist them in tracking the flow of grant funds from receipt to disbursement, and to determine whether the questioned grant funds were used for the intended purposes.

3. **We recommend that OJP deobligate and put to better use the remaining \$3,714,838.**

OJP respectfully disagrees with the recommendation, as OJP has taken actions to mitigate the risk associated with the remaining, unspent grant funds. OJP imposed an immediate freeze on BBBSA's funding under OJP Instruction, OJP 14501.1A, *Temporarily Freezing Payments and Suspension or Termination of Grant or Cooperative Agreement Awards*, and subsequently added award conditions to remaining open grants that restrict BBBSA from obligating, expending, or drawing down funds. Also, as previously mentioned, on February 27, 2013, OJP designated BBBSA as a DOJ high-risk grantee, pursuant to the requirements of 28 C.F.R. §70.14. This designation and award conditions preventing access to funds will remain in effect until BBBSA

implements the corrective actions to address the open recommendations and questioned costs related to this audit. Additionally, DOJ/OJP reserves the right to take further administrative action if BBBSA does not make timely progress in addressing the outstanding high-risk issues.

As acknowledged on page 29 in the draft OIG audit report, despite its accounting and administrative issues, the OIG stated that BBBSA achieved or was on track to achieve the goals and objectives of the grants. At this time, the current leadership of the BBBSA has shown a commitment to addressing the audit issues, and OJP will continue to work with the grantee with the expectation that BBBSA will resolve the issues and questioned costs, enabling it to resume full implementation of its OJJDP-funded mentoring program. Accordingly, we believe that the actions taken by OJP to date, as described in the above paragraph, are sufficient to address the concerns associated with this recommendation. Last, but certainly not least, we believe that the work of BBBSA – providing mentoring services for disadvantaged youth – is a critically important priority for urban, suburban, and rural communities across America and in light of the statutory limitations on the funding, the purpose of supporting mentoring for youth is a very worthy purpose. As such, OJP requests closure of this recommendation.

4. **We recommend that OJP ensure that BBBSA establishes appropriate internal controls that include the design and implementation of policies and procedures to assure that its financial management system provides for adequate recording and safeguarding of grant-related activities and ensure that staff are adequately trained and supervised in the use of the system.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented “Financial and Grants Management Policies” manual, which includes internal controls over its financial management system to ensure that grant-related transactions are accounted for properly. BBBSA also stated that an “all-hands” training would be held on May 30, 2013, to provide BBBSA staff with training on the implemented policies. Further, BBBSA stated that all members of the Finance staff and senior BBBSA management (including those responsible for grants administration) have completed the web-based DOJ Grants Financial Management Training, which will further assist BBBSA in complying with OJP grant requirements. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that grant-related transactions are properly recorded its financial management system, by selecting and receiving a sample of transactions and in-house training was provided to BBBSA staff on its newly implemented procedures.

5. **We recommend that OJP ensure that BBBSA documents and implements policies and procedures for subrecipient monitoring.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure that adequate oversight is established for Federal grant funds awarded to its subrecipients. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and BBBSA provided training to its subrecipients on the newly implemented procedures.

6. **We recommend that OJP ensure that BBBSA implements policies and procedures that ensure personnel expenditures paid with grant funding are documented as required by the OJP Financial Guide.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure that employees track time spent on grant-related activity is properly documented and accurate. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and in-house training was provided to its staff on the new timekeeping system.

7. **We recommend that OJP ensure that BBBSA implements time and effort tracking procedures that ensure employees document time spent on grant-related activities.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure that employees document all time worked on grant-related activities. This documentation includes the establishment of a new timekeeping system. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and in-house training was provided to BBBSA staff on the new timekeeping system.

8. **We recommend that OJP ensure BBBSA implements policies and procedures that ensure employees paid with grant funds are identified on approved grant budgets.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure that employees paid with grant funds are identified on approved grant budgets. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and appropriate training was provided to BBBSA staff on ensuring compliance with approved grant budgets.

9. **We recommend that OJP require that BBBSA clearly documents and maintains the analysis, negotiation, justification, and monitoring for grant-funded consultants.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure that activities (i.e., analysis, negotiation, justification, and monitoring) related to grant-funded consultants and other contractors are documented consistent with Federal law, regulations, and grant requirements. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and in-house training was provided to BBBSA staff on its new procedures for overseeing consultants.

10. **We recommend that OJP ensure BBBSA implements policies and procedures for accurately calculating and charging indirect costs to Department of Justice grants.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure that the allocation of indirect costs for Federal grants is properly calculated and documented. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and in-house training was provided to BBBSA staff on its new indirect cost allocation procedures.

11. **We recommend that OJP ensure BBBSA establishes and adheres to written policies and procedures for (1) identifying drawdown amounts and (2) minimizing the time between drawdown and disbursement in accordance with the Financial Guide.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure that: drawdown requests are made on a reimbursement basis; the time between drawdown and disbursement is minimized; and Federal cash-on-hand is maintained in accordance with the OJP Financial Guide. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and in-house training was provided to BBBSA staff on its new drawdown policy.

12. **We recommend that OJP ensure BBBSA implements policies and procedures that comply with all budget-related requirements, including the monitoring of grant budgets so that only reimbursement requests are made for actual expenditures approved in the budget by cost category and amount.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure compliance with all budget-related requirements, including monitoring of actual grant expenditures against the approved grant budget. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and in-house training was provided to BBBSA staff on its new grant adjustment and budget modification policy.

13. **We recommend that OJP ensure BBBSA implements policies and procedures for the acquisition, inventory, and disposal of accountable grant-funded property.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure proper accounting over the acquisition, inventory, and disposal of accountable grant-funded property and equipment. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the results of the February 2013 physical inventory conducted by BBBSA of its accountable property agree with the property records in its accounting system, and in-house training was provided to BBBSA staff on its new property policy.

14. **We recommend that OJP ensure BBBSA implements policies and procedures to ensure FFRs are submitted based on accurate information and implements and adheres to policies and procedures to ensure progress reports are submitted timely.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure that FFRs and programmatic progress reports are accurate and submitted timely. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and in-house training was provided to BBBSA staff on its new grant reporting policy.

15. **We recommend that OJP ensure BBBSA implements policies and procedures to identify, track, manage, and use program income in accordance with the Financial Guide requirements.**

OJP agrees with the recommendation. In its May 21, 2013 response, BBBSA provided OJP with a copy of its recently implemented procedures, incorporated in its policies manual, to ensure that it appropriately identifies, tracks, records, manages, and reports program income in accordance with the OJP Financial Guide. While we believe these improved procedures are sufficient to close this recommendation, we will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and in-house training was provided to BBBSA staff on its new program income policy.

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

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OJP Executive Secretariat
Control Number 20130467

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

The OIG provided a draft of this audit report to Big Brothers Big Sisters of America (BBBSA) and the Office of Justice Programs (OJP). BBBSA's response is incorporated as Appendix IV of this final report, and OJP's response is included as Appendix V. The following provides the OIG's analysis of the responses and summary of actions necessary to close the report.

Analysis of BBBSA and OJP Responses

BBBSA provided an initial response to our draft report on May 21, 2013, that provided general observations related to this audit, additional information on the history and accomplishments of BBBSA, and points specifically addressing each audit recommendation. In its response, BBBSA also requested a 60-day extension to respond further to the draft audit report. This extension request was denied because, while we recognize BBBSA was working to correct the deficiencies identified in this audit, a 21 day extension was already provided, the extent of the findings would likely require more than 60 days to fully address, and the information contained in this report to the Office of Justice Programs must be timely so that appropriate actions may be taken. BBBSA continued to provide updates on its corrective actions since the original response, including two responses on May 31 and June 6, 2013. These responses will be taken into consideration as appropriate in the resolution of the recommendations below.

In providing general comments and information on its history and accomplishments, BBBSA's response focused on three overall areas; a strong history of improving the lives of children, BBBSA's commitment to compliance, and its successful partnership with the Department of Justice (DOJ) to address challenges faced by today's youth. In discussing the first topic, BBBSA provided an overview of its organizational history and accomplishments. While we understand the importance of the work BBBSA strives to accomplish through its programs, our audit was not intended to report on the history or accomplishments of BBBSA. Rather, as stated in our report the purpose of our audit was to determine whether reimbursements claimed for costs under the grants reviewed were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grants.

BBBSA's response then included a discussion on its commitment to compliance, stating that the remediation process had been initiated and that BBBSA "is committed to each and every change recommended by the OIG." However, BBBSA's response also stated that the findings were not reflective of the BBBSA organization as a whole or over time. BBBSA then referred to reviews by the OIG in 2004, Single Audit Reports issued by independent auditors from the years 2006-2011, and OJP desk reviews that did not catch level of problems with BBBSA systems as this audit. Regarding our 2004 audit, we reviewed BBBSA's management of the one grant it had received from the Department of Justice at the time, which totaled about \$12 million to be spent over 5 years.¹⁸ Since that audit, BBBSA has received 13 grants from the Department of Justice, totaling about \$68 million. This significant increase in funding contributed to the reasons for our return to BBBSA so that we could examine if its systems, which were sufficient for the management of one grant, properly managed the increase in federal funds.

With respect to the Single Audit Reports, these reports are intended to provide assurance to the federal government that grants are being properly managed by a recipient, and we mention these reports in our report as a factor of our risk assessment of grant recipients. However, validating the accuracy of the reports is beyond the scope of this audit. In addition, OJP provided in its response a discussion of the risk assessments, desk reviews, and other grantee monitoring it performs in managing the grant funding it provides to grantees. OJP stated that the desk reviews are not intended to be financial reviews. As we have indicated in our audit report, we considered the results of the OJP desk reviews in planning our audit work, however this audit is of the OJP grant funds provided to BBBSA and not an evaluation of OJP's grants monitoring system.

BBBSA also stated that neither the OIG nor BBBSA's forensic accounting team has found any evidence of intentional misuse or misdirection of Federal funds. While our audit does not focus or report on the intent of any misuse, our audit findings disclosed significant deficiencies in grant management as recognized by BBBSA and OJP. BBBSA also stated that it now recognizes that individuals who provided information were unable to deliver the information we requested. We identified this inability to provide the required information early in our audit. Rather than issue our report at that time, we allowed BBBSA additional time to provide the required documentation, but it could not provide reliable or adequate

¹⁸ U.S. Department of Justice Office of the Inspector General, *Office of Justice Programs Grant Administered by Big Brothers Big Sisters of America, Philadelphia, Pennsylvania*, Audit Report No. GR-70-04-005 (May 2004).

information as it had not maintained that information in the manner required by the grant terms.

BBBSA's response stated that part of its effort to move forward has included the replacement of all of its senior management and financial leadership. In our report, we recognized some of these actions but do not comment on the overall organizational management structure of BBBSA, only the BBBSA's performance on key areas of DOJ grant management. BBBSA also included a discussion of work done to overhaul its grants management and internal control policies and procedures in order to effectively comply with applicable law, regulations, and guidance. BBBSA stated that, to the extent federal funds are released, BBBSA will be able to verify that the new policies are sufficient to correct the problems identified during our audit or, if necessary, to make additional adjustments. Lastly, BBBSA referred to its partnership with the DOJ in addressing the challenges confronting the nation's youth, again with references to BBBSA's history of program accomplishments. For example, BBBSA stated that it exceeded the objectives of the grants. As indicated by our report conclusions, our audit did not take issue with the BBBSA's program accomplishments, but found significant deficiencies in key areas of grant management. In addition, we did not audit the process of reporting these accomplishments as disclosed in our report.

In its response, OJP generally concurred with our recommendations with the exception of recommendation three which is discussed in detail below. OJP also indicated that it has been working with BBBSA to address these issues prior to the issuance of this report, and has taken significant steps to remedy the situation including the freezing of funds and its designation of BBBSA as a high-risk grantee. In addition, for recommendations 4 through 15, OJP did not request closure of the recommendations but indicated it will verify the implementation of the revised procedures and their effectiveness in resolving the identified deficiencies. OJP also stated in its response that it is reviewing its current grantee risk assessment process to determine other approaches which may identify grantees, like BBBSA, which have significant risks that may not be identified by the current risk assessment process.

Summary of Actions Necessary to Close Report

1. **Resolved.** In its response, OJP agreed with our recommendation to remedy the \$19,462,448 in unsupported expenditures resulting from:

- (a) grant drawdowns that were unsupported due to commingling (drawdown of \$19,462,448),

- (b) payments made to subrecipients, from the initiation of the grants to June 27, 2012, due to lack of monitoring how the subrecipients spent the funds (expenditures of \$12,624,008),
- (c) costs associated with personnel and fringe benefits due to lack of time and effort reports (expenditures of 2,008,405),
- (d) travel expenditures that were not sufficiently documented (expenditures of \$196,059),
- (e) costs of a Native American Mentoring consultant without the required time and effort reports (expenditures of \$19,375),
- (f) costs associated with a Native American Mentoring consultant with no documentation of grant related activity (expenditures of \$11,625), and
- (g) indirect costs not verifiable due to a lack of direct cost data resulting from commingling expenditures (expenditures of \$434,157).

OJP stated that it will coordinate with BBBSA to remedy the \$19,462,448 in unsupported expenditures including monitoring the work of BBBSA's forensic accounting firm.

BBBSA stated that a forensic accounting review was being performed and therefore it could not agree or disagree to any unsupported and unallowable expenditures. In addition, BBBSA requested that we withhold any final determination on the unsupported or unallowable expenditures until the forensic review was complete.

Grant rules require grantees to readily identify the full use of the grant funds received and maintain adequate supporting documentation demonstrating the use of the funds. In performing our audit of BBBSA, we were not provided an accurate accounting of the federal funds expended by BBBSA, and based on the commingling of funds from other sources, it was not possible for us to determine how grant funds were used specifically versus any other funds utilized by BBBSA. As a result, the determination has been made regarding the questioned costs for this recommendation.

While BBBSA is performing a forensic review of its expenditures, which should establish the amount of funds used for its entire operations, concerns may still exist that the final accounting may not clearly delineate

how federal funds were used, at the time of expenditure, versus funds from other sources for specific transactions.

In its response, BBBSA also states that it would like to work cooperatively with the OIG with regard to the forensic investigation. However, our role in performing grant audits is to perform independent reviews and report findings and recommendations to the DOJ granting agency. BBBSA will need to work with OJP to remedy the findings.

This recommendation can be closed when we receive documentation demonstrating that OJP remedied the unsupported expenditures.

2. **Resolved.** In its response, OJP agreed with our recommendation to remedy the \$967,415¹⁹ in unallowable expenditures resulting from:
- (a) costs associated with the Associate Director of Native American Mentoring position not on the 2009-TY-FX-0047 approved budget (expenditures of \$37,017),
 - (b) travel expenditures that were not allowable (expenditures of \$196,059),
 - (c) consultant costs due to a failure to ensure that reasonable consultant rates were established on a case-by-case basis (expenditures of \$221,182),
 - (d) costs due to an unapproved, non-competitively negotiated rate without justification for the AIM consultant (expenditures of \$79,000), and
 - (e) indirect costs that were improperly calculated (expenditures of \$434,157).

OJP stated that it will coordinate with BBBSA to obtain documentation regarding the questioned expenditures, and will request a final determination from OJJDP regarding the allowability of the expenditures.

In its response, BBBSA neither concurred nor disputed our recommendation, stating that a forensic review of the use of grant funds had been initiated but not yet completed. Additionally, the response provided a discussion of the planned actions taken during the review in order to assess whether the funds were used for the purposes intended. However, the issues with the unallowable expenditures will not necessarily be resolved by the efforts of forensic accounting as the

¹⁹ In response to our draft report, OJP and BBBSA responded to the draft report total unallowable expenditures of \$1,019,818. The figure was adjusted to \$967,415 in the final report.

underlying issue was that BBBSA spent funds on personnel or other items that were not approved by OJP, or charged expenditures to the grants in a manner that was not approved by OJP.

This recommendation can be closed when we receive documentation demonstrating that OJP remedied the unallowable expenditures.

3. **Resolved.** In its response to the draft report, OJP disagreed with our recommendation to deobligate and put to better use the remaining \$3,714,838. However, OJP described in its response a number of alternative corrective actions it has taken that represent increased oversight of BBBSA. These actions included the imposition of an immediate freeze on BBBSA funds and the designation of BBBSA as DOJ high-risk grantee. In addition, OJP stated that it will require that BBBSA implement internal controls that will ensure grant funding is safeguarded and managed properly. In addition, OJP recognizes that the work of BBBSA, to provide mentoring services for disadvantaged youth, is a critically important program.

In its response, BBBSA also disagreed with the recommendation stating that deobligating the remaining \$3,714,838 is unwarranted given its newly overhauled systems. BBBSA stated that it has made significant progress towards systemic, policy, and procedural improvements, including but not limited to, implementation of enhancements to the overall systems of internal controls over its financial management system and it has undertaken a complete turnaround in its internal policies, systems, and procedures to ensure the safeguarding of Federal grant funds.

Given the extent of the issues the audit revealed, and the fact that all of the other recommendations in this report were agreed to by OJP, we believe it is critical for BBBSA to demonstrate “present responsibility”—the ability to safeguard and properly account for the federal funds that they are given – to close this recommendation. Based on OJP’s decision to freeze funds and its increased oversight of BBBSA, both demonstrated and planned, this recommendation can be closed when we receive evidence from OJP that BBBSA has implemented the changes it has described in regard to managing federal funds, including the closure of recommendations 4 through 15 of this report. Simply put, this recommendation can be closed when BBBSA has demonstrated that it has the ability to safeguard and properly account for the federal funds that it receives.

4. **Resolved.** In its response, OJP agreed with our recommendation to ensure that BBBSA establishes appropriate internal controls that include the design and implementation of policies and procedures to assure that its financial management system provides for the adequate recording and safeguarding of grant-related activities and ensure that staff are adequately trained and supervised in the use of the system. OJP stated it believes BBBSA's recently improved procedures, including its "Financial and Grants Management Policies" manual which includes internal controls over its financial management system, are sufficient to close the recommendation. However, OJP stated it will work with BBBSA to obtain additional documentation to support that grant-related transactions are properly recorded in BBBSA's financial management system.

In its response, BBBSA concurred with our recommendation and stated that it has approved, and is currently implementing, new internal controls over its financial management system.

This recommendation can be closed when we receive documentation demonstrating the implementation of BBBSA's new policies, receive evidence that staff have been adequately training on new policies, and staff are adequately supervised in the use of the system.

5. **Resolved.** In its response, OJP agreed with our recommendation that BBBSA document and implement policies and procedures for subrecipient monitoring. OJP stated it believes BBBSA's recently implemented subrecipient monitoring procedures are sufficient to close the recommendation. However, OJP stated that it will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and BBBSA has provided training to its subrecipients.

In its response, BBBSA concurred with our recommendation and stated that it has recently approved a "Subrecipient Monitoring Policy" to ensure subrecipients provide accurate, timely, and complete programmatic and financial disclosure to BBBSA.

This recommendation can be closed when we receive documentation demonstrating the implementation of the subrecipient policies and procedures, and review evidence that subrecipients received adequate training on the newly implemented procedures.

6. **Resolved.** In its response, OJP agreed with our recommendation to ensure that BBBSA implements policies and procedures that ensure personnel expenditures paid with the grant funding are documented as

required by the OJP Financial Guide. OJP stated that it believes that BBBSA's recently implemented procedures to ensure employees track time spent on grant-related activity are sufficient to close the recommendation. However, OJP stated that it will work with BBBSA to obtain additional documentation to support its procedures were properly implemented and training was provided.

In its response, BBBSA concurred with our recommendation and stated that it has approved and recently put in place a "Timekeeping Policy" to ensure that all time spent by employees on grant-related activities is tracked accurately.

This recommendation can be closed when we receive documentation demonstrating the implementation of the timekeeping procedures.

7. **Resolved.** In its response, OJP agreed with our recommendation to ensure that BBBSA implements time and effort tracking procedures that ensure employees document time spent on grant-related activities. OJP stated that it believes BBBSA's recently implemented procedures are sufficient to close this recommendation. However, OJP stated that it will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented.

In its response, BBBSA concurred with our recommendation and stated that as part of its newly developed "Timekeeping Policy" employees are required to track time spent working on grant-related activities.

This recommendation can be closed when we receive documentation demonstrating the implementation of the time and effort tracking procedures.

8. **Resolved.** In its response, OJP agreed with our recommendation to ensure that BBBSA implements policies and procedures that ensure employees paid with grant funds are identified on approved grant budgets. OJP stated that it believes BBBSA's recently implemented procedures to ensure that employees paid with grant funds are identified on approved grant budgets are sufficient to close this recommendation. However, OJP stated that it will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented and ensure that BBBSA staff comply with approved grant budgets.

In its response, BBBSA concurred with our recommendation and stated that it has recently adopted policies and procedures to ensure that employees paid with grant funds are on approved grant budgets.

This recommendation can be closed when we receive documentation demonstrating the implementation of policies and procedures ensuring employees paid with grant funds are on approved grant budgets.

9. **Resolved.** In its response, OJP agreed with our recommendation to require BBBSA to clearly document and maintain the analysis, negotiation, justification, and monitoring for grant-funded consultants. OJP stated that it believes BBBSA's recently implemented procedures to ensure that activities related to grant-funded consultants and other contractors are sufficient to close this recommendation. However, OJP stated that it will work with BBBSA to obtain additional documentation to support that the procedures for overseeing consultants were properly implemented.

In its response, BBBSA concurred with our recommendation and has recently approved a "Policy for Hiring and Oversight of Consultants and Other Contractors" which includes procedures for procurement, monitoring, and evaluation of consultants.

This recommendation can be closed when we receive documentation demonstrating implementation of procedures that documents and maintains the analysis, negotiation, justification, and monitoring for grant-funded consultants.

10. **Resolved.** In its response, OJP agreed with our recommendation to ensure BBBSA implements policies and procedures for accurately calculating and charging indirect costs to DOJ grants. OJP stated that it believed that BBBSA's recently implemented for calculating and charging indirect costs are sufficient to close this recommendation. However, OJP stated that it will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented.

In its response, BBBSA concurred with our recommendation and has recently approved an "Indirect Costs Allocation Policy" to define and require the proper allocation of indirect costs for Federal grants.

This recommendation can be closed when we receive documentation demonstrating the implementation of the procedures that ensure the accurate calculation and charges of indirect costs to DOJ grants.

11. **Resolved.** In its response, OJP agreed with our recommendation to ensure BBBSA establishes and adheres to written policies and procedures for (1) identifying drawdown amounts and (2) minimizing the time between drawdown and disbursement in accordance with the Financial Guide. OJP stated that it believes that BBBSA's recently implemented policies include procedures that ensure drawdown requests are made on a reimbursement basis, time between drawdown and disbursement is minimized, and Federal cash-on-hand is maintained in accordance with the Financial Guide are sufficient to close this recommendation. However, OJP stated that it will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented.

In its response, BBBSA concurred with our recommendation and has recently approved a "Federal Award Drawdown Policy" to accurately identify amounts for drawdown on a reimbursement basis and minimize the time between drawdown and disbursement.

This recommendation can be closed when we receive documentation demonstrating BBBSA has established and is adhering to its policies and procedures for identifying drawdowns and minimizing the time between drawdown and disbursement.

12. **Resolved.** In its response, OJP agreed with our recommendation to ensure BBBSA implements policies and procedures that comply with all budget-related requirements, including the monitoring of grant budgets so that only reimbursement requests are made for actual expenditures approved in the budget by cost category and amount. OJP stated that it believes that BBBSA's recently implemented procedures to ensure compliance with all budget-related requirements are sufficient to close this recommendation. However, OJP stated that it will work with BBBSA to obtain additional documentation to provide support that the procedures are properly implemented.

In its response, BBBSA concurred with our recommendation and has recently adopted procedures which include the active monitoring of actual expenditures against approved award budgets.

This recommendation can be closed when we receive documentation demonstrating BBBSA's ability to monitor grant budgets so that only reimbursement requests are made for actual expenditures approved in the award budget by cost category and amount.

13. **Resolved.** In its response, OJP agreed with our recommendation to ensure BBBSA implements policies and procedures for the acquisition, inventory, and disposal of accountable grant-funded property. OJP stated that it believes BBBSA's recently implemented procedures to ensure proper accounting over the acquisition, inventory, and disposal of accountable grant-funded property and equipment are sufficient to close this recommendation. However, OJP stated that it will work with BBBSA to obtain additional documentation to support that the results of a February 2013 physical inventory conducted by BBBSA of its accountable property agree with property records in its accounting system.

In its response, BBBSA concurred with our recommendation and recently adopted a "Property Policy" to ensure that BBBSA accounts for and monitors the acquisition, maintenance, and disposal of all equipment and related property.

This recommendation can be closed when we receive documentation demonstrating the implementation of procedures for the acquisition, inventory, and disposal of accountable grant-funded property.

14. **Resolved.** In its response, OJP agreed with our recommendation to ensure BBBSA implements policies and procedures to ensure Federal Financial Reports (FFR) are submitted based on accurate information and implements and adheres to policies and procedures to ensure progress reports are submitted timely. OJP stated that it believes BBBSA's recently implemented procedures to ensure that FFRs and programmatic progress reports are accurate and submitted timely are sufficient to close this recommendation. However, OJP stated that it will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented.

In its response, BBBSA concurred with our recommendation and stated that it has recently adopted a "Grant Reporting Policy" to ensure the timely and accurate reporting of financial and programmatic information.

This recommendation can be closed when we receive documentation demonstrating this policy has been implemented.

15. **Resolved.** In its response, OJP agreed with our recommendation to ensure BBBSA implements policies and procedures to identify, track, manage, and use program income in accordance with the Financial Guide. OJP stated that it believes BBBSA's recently implemented procedures to ensure that it identifies, tracks, records, manages, and report program income are sufficient to close this recommendation. However, OJP stated

that it will work with BBBSA to obtain additional documentation to support that the procedures were properly implemented.

In its response, BBBSA concurred with our recommendation and said that it has recently adopted a Program Income Policy to ensure that it appropriately identifies treats, records, and reports program income associated with funds received from federal agencies. However, BBBSA also stated in its response to Recommendations 1 and 2, "Navigant will also address the audit finding that certain fees charged to subrecipients should be considered program income and, as such, restricted as to their use." In agreeing with our recommendation, BBBSA qualified its response by stating that "In the event that a BBBSA generates program income for the purposes of federal law...." As a result, we have noted that BBBSA is working to determine what constituted program income and whether or not their determination agrees with the audit finding.

This recommendation can be closed when we receive adequate documentation demonstrating that this policy has been implemented.