



**AUDIT OF THE OFFICE OF JUSTICE PROGRAMS
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE
GRANTS AWARDED TO PHILADELPHIA SAFETY NET
PHILADELPHIA, PENNSYLVANIA**

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

Audit Report GR-70-14-001
January 2014

**AUDIT OF THE OFFICE OF JUSTICE PROGRAMS
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANTS
AWARDED TO PHILADELPHIA SAFETY NET
PHILADELPHIA, PENNSYLVANIA**

EXECUTIVE SUMMARY

The Department of Justice Office of the Inspector General, Audit Division, has completed an audit of the Office of Justice Programs (OJP) Edward Byrne Memorial Justice Assistance Grants, numbers 2009-D1-BX-0272 and 2010-DD-BX-0471, awarded to Philadelphia Safety Net (PSN) of Philadelphia, Pennsylvania totaling \$800,000.¹

Funding from these grants supported PSN's "Goods for Guns" initiative that entailed exchanging guns turned in by the public for grocery store gift cards. In addition, funding from one of these grants was used to provide safety workshops for seniors. Between July 2010 and March 2012, PSN financially supported seven "Goods for Guns" events in locations around Philadelphia, Pennsylvania. At each of these events, the Philadelphia Police Department collected guns while the PSN Executive Director or grocery store representatives distributed \$100 gift cards.

As a result of this audit, we determined that PSN used \$479,183, approximately 62 percent of \$771,137 in grant funding received from OJP, for expenses we identified as (1) unallowable, (2) unsupported, and/or (3) unreasonable.² Included in this amount are expenses related to the Executive Director's compensation (\$346,394), rent and utilities (\$43,697), accountable property (gift cards totaling \$36,300), and consultant expenditures (\$52,792).

In addition, we identified that prior to the start of this audit, PSN's Executive Director had used the grant funding from sources not related to

¹ During this audit, we identified certain issues requiring further investigation. We made a referral to the OIG's Investigations Division, and put our audit on hold pending resolution of the referral. Subsequently, we were able to complete our audit and issue this report.

² Appendix II of this audit report provides a detailed listing of the questioned costs summarized here.

these grants for his personal expenditures.³ Although the Executive Director made repayments to PSN in 2010, he never reimbursed PSN for \$3,389 that included personal items such as a parking ticket, a hotel stay, gasoline purchases, clothing, restaurant meals, and cash withdrawals.

With regard to the PSN's personnel costs, we determined that PSN's Executive Director, the organization's sole employee, performed his daily activities in relative isolation without any oversight by the Board of Directors. His sister served as chairperson of the Board, which we concluded created a potential conflict of interest. We also found that the Executive Director paid himself more than the PSN Board of Directors authorized by directing a third party payroll provider to issue him paychecks in the amount and frequency he determined.

In addition, PSN used grant funding totaling \$29,750 to pay the rent on a building that was only used once a month on average and did not maintain documentation to adequately support utility expenses of \$13,947.

We also found that PSN could not account for all the gift cards that were purchased and donated for the "Goods for Guns" program. Specifically, we determined that PSN purchased or was given 3,234 gift cards but only collected 2,871 guns. Of the remaining 363 gift cards that were not traded for guns through the program, 83 were still within PSN's inventory at the conclusion of the grant program and PSN could not account for 280 gift cards. As a result, we identified \$36,300 of unallowable and unsupported grant expenditures.

Finally, we identified concerns with regard to PSN's accounting consultant. Specifically, we determined that PSN did not select its accounting consultant using competitive bidding as required by the OJP Financial Guide. We also found that this consultant provided assurances to OJP regarding the capability of PSN's accounting system to effectively control grant funds and, we believe, the assurances made by the consultant were misleading because the accounting system described to OJP was not PSN's but instead PSN's accounting consultant's. Therefore, the accounting system the consultant certified was its own, not PSN's, and certification did not come from an independent source as required.

³ U.S. Department of Justice Office of the Inspector General, *Audit of the Office of Justice Programs Bureau of Justice Assistance Grants Awarded to the Father's Day Rally Committee, Philadelphia, Pennsylvania*, Audit Report GR-70-14-002 issued January 2014.

These items are discussed in detail in the Findings and Recommendations section of the report. Our audit objective, scope, and methodology are discussed in Appendix I.

We discussed the results of our audit with PSN officials and have included their comments in the report, as applicable. In addition, we provided a copy of our draft report to PSN and OJP for comment. These responses are appended to this report as Appendix III and IV, respectively. Our analysis of both responses, as well as a summary of actions necessary to close the recommendations can be found in Appendix V of this report.

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INTRODUCTION

The Department of Justice (DOJ) Office of the Inspector General, Audit Division, has completed an audit of the Office of Justice Programs (OJP) Edward Byrne Memorial Justice Assistance Grants (JAG), numbers 2009-D1-BX-0272 and 2010-DD-BX-0471, awarded to Philadelphia Safety Net (PSN), Philadelphia, Pennsylvania.⁴ In total, \$800,000 was awarded to PSN through these grants.

OJP Grants to Philadelphia Safety Net

GRANT AWARD	AWARD START DATE	AWARD END DATE ⁵	AWARD AMOUNT
2009-D1-BX-0272	09/01/2009	12/31/2011	\$ 500,000
2010-DD-BX-0471	10/01/2010	3/30/2012	300,000
TOTAL:			\$ 800,000

Source: OJP

OJP works to provide 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. 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. The Edward Byrne Memorial Discretionary Grants Program is intended to help local communities improve the capacity of local justice systems and provides for national support efforts.

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 PSN's program performance in meeting the grants' objectives and overall accomplishments. The objective of our audit was to review performance in the following areas: (1) internal control environment, (2) grant expenditures, (3) accountable property,

⁴ During this audit, we identified certain issues requiring further investigation. We referred those matters to the OIG's Investigations Division, and put our audit on hold pending such investigation. Subsequently, we were able to complete our audit and issue this report.

⁵ OJP approved PSN's requests to extend the grant period, without additional funding, for both grants.

(4) drawdowns, (5) budget management and control, (6) reporting, and (7) program performance and accomplishments. We determined that program income, matching costs, indirect costs, and monitoring of contractors and subgrantees were not applicable to these grants.

Background

The mission of Philadelphia Safety Net is to provide hand-gun safety education information to urban communities through collaborative initiatives to reduce the number of available guns through city-wide gun turn-ins conducted under the supervision of the Philadelphia Police Department. According to its internet website, PSN's focus is safety prevention to help provide a safer environment for children and seniors by removing hand guns that may pose a threat to the lives of Philadelphians. PSN collaborates with the City of Philadelphia's Police Department, Probation Department, and School District on the following programs: (1) goods/groceries for gun program, (2) gun safety tips and education, (3) informational outreach to populations most at-risk for gun-violence, and (4) an educational curriculum focused towards school children.

PSN was established in 2008 by its Executive Director who is also its sole employee. Prior to being awarded the OJP grants that are the subject of this audit report, PSN received funding from two additional sources: (1) the Commonwealth of Pennsylvania's Commission on Crime and Delinquency (Pennsylvania) provided two grants and (2) the Father's Day Rally Committee (FDRC) provided a subaward from an OJP grant.⁶ The following table presents the grant funding PSN received from these sources.

Previous PSN Funding Sources

Funding Source	Project Period	Amount Received
Pennsylvania Commission on Crime and Delinquency - Grant 1	March 2008-February 2009	\$250,000
Pennsylvania Commission on Crime and Delinquency - Grant 2	March 2009-March 2010	115,000
Father's Day Rally Committee	July 2008 - December 2010	186,894
Total		\$551,894

Source: PSN

⁶ The funding PSN received from the Father's Day Rally Committee as a subgrantee was provided through OJP grant 2008-DD-BX-0575.

Our Audit Approach

We tested compliance with what we consider to be the most important conditions of the grants. Unless otherwise stated in our report, the criteria we audited against are contained in the Office of Justice Program's Financial Guide and the award documents.

In conducting our audit, we performed testing of PSN'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 grants.
- **Grant expenditures** to determine whether costs charged to the grants were allowable and supported.
- **Accountable property** to determine whether PSN had effective procedures for managing and safeguarding assets acquired with grant funding.
- **Drawdowns** (requests for grant funding) to determine if PSN adequately supported its requests for funding and managed its grant receipts in accordance with federal requirements.
- **Budget management and control** to determine the overall acceptability of budgeted costs by identifying any budget deviations between the amounts authorized in the budget and the actual costs incurred.
- **Reporting** to determine if the required periodic Federal Financial Reports and Progress Reports were submitted on time and accurately reflected grant activity.
- **Program performance and accomplishments** to determine whether PSN achieved the grants' objectives and to assess performance and grant accomplishments.

These items are discussed in detail in the Findings and Recommendations section of the report. Our audit objective, scope, and methodology are discussed in Appendix I.

FINDINGS AND RECOMMENDATIONS

COMPLIANCE WITH ESSENTIAL GRANT REQUIREMENTS

In performing our audit, we determined that PSN: (1) paid excessive compensation to the Executive Director and a portion was unauthorized; (2) charged unsupported utility expenditures to the grant; (3) failed to use competitive bidding for consultants; (4) did not properly safeguard grant-funded property; (5) had excess cash on hand; (6) provided late final Federal Financial Reports; and (7) did not meet the primary goals relating to the number of gun buy-back events held and the number of guns collected using budgeted grant funds. We also identified internal control deficiencies that contributed to these audit findings.

Overview

In performing this audit, we examined PSN's grant applications, accounting records, financial and progress reports, and operating policies and procedures and determined that 62 percent of the OJP grant funding PSN received, or \$479,183, was used for purposes that were unallowable, unsupported, or unreasonable.⁷

Specifically, we question \$346,394 of the PSN's Executive Director's compensation as unreasonable, unsupported, and partially unallowable. We also question the reasonableness and supportability of rent and utilities paid on two PSN offices totaling \$43,697, and payments of \$52,792 to a consultant that was not selected using a required competitive bidding process. In addition, PSN did not use 83 \$100 gift cards totaling \$8,300 for grant purposes and was unable to account for 280 \$100 gift cards, totaling \$28,000, purchased or donated as part of its "Goods for Guns" gun buy-back events. We also determined that the internal control environment at PSN was flawed. Of particular concern to us, PSN's Board of Directors failed to provide any real oversight of PSN's Executive Director who is PSN's sole employee.

⁷ Appendix II of this audit report provides a detailed listing of the questioned costs summarized here.

Internal Control Environment

We determined PSN lacked effective policies and procedures to safeguard grant funding and acted without oversight or governance provided by its Board of Directors.

Board of Directors

An active Board of Directors that provides oversight for an organization in general and the Executive Director in particular is a key element in the internal control environment for nonprofit grantees. According to the Commonwealth of Pennsylvania, Office of the Attorney General, nonprofit board members have a duty of care that requires them to make reasonable inquiries when analyzing contracts, investments, business dealings, and other matters concerning the organization.⁸ Moreover, an individual who is acting in conformance with this standard will (1) diligently read, review, and inquire about the material that affects the organization and (2) keep abreast of the organization's affairs and finances.

We met with PSN's five Board Members and determined that none had more than a cursory understanding of the operation of the organization, its funding sources and budgets, the Executive Director's daily activities, the financial condition of the organization, or the status of any audits of the organization.

Although the minutes of PSN's first board meeting in 2008 indicated the members authorized an annual salary of \$90,000 for the Executive Director, we found no evidence that the members ever revisited this issue through 2012 or evaluated the Executive Director's performance. We believe this lapse in oversight is significant as the Executive Director's actual compensation in 2010 and 2011 was \$56,378 and \$24,859 more than his board approved salary in those years respectively. In the Expenditures section of this report we provide a detailed analysis of the issues related to the Executive Director's compensation.

In addition to their duty of care, board members have a duty of loyalty that requires them to perform their duties in good faith with the best interests of the organization in mind. Specifically, board members have a duty to avoid potential or apparent conflicts of interest. However, because a Board member who served as Chairperson was also the sister of the

⁸ Handbook for Charitable Nonprofit Organizations, Commonwealth of Pennsylvania, Office of the Attorney General.

Executive Director, we concluded this created a potential conflict of interest. Although we did not identify any misconduct on the part of the board member, we believe her relationship to the Executive Director and her prominent position on the board compromised her ability to provide effective oversight of the organization and the Executive Director.

Accounting Function

At the time PSN was awarded its first grant directly from OJP in September 2009, OJP required that the organization complete an accounting system and financial capability questionnaire. The questionnaire informs the grantee that its financial responsibility must be such that the grantee can properly discharge the public trust which accompanies the authority to expend public funds. Specifically, the accounting system should be integrated with an adequate system of internal controls to safeguard the funds and assets covered, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies.

According to the responses provided in the questionnaire, to which the Executive Director attested, PSN's accounting system met the standards established in the OJP Financial Guide. However, because PSN had not yet had an independent review of its financial statements, the questionnaire completed by PSN was required to be certified by an independent Certified Public Accountant (CPA).⁹ The purpose of the CPA certification is to provide assurance to OJP that the grantee can establish fiscal controls and accounting procedures to ensure grant funding is disbursed and accounted for properly.

Although a CPA certified PSN's questionnaire, the certifying CPA was not independent, as it was PSN's accounting consultant. We also determined that the accounting system described in the questionnaire was not PSN's but instead the accounting consultant's. Therefore, the accounting system the CPA was certifying was its own, not PSN's.

Control Activities

In conducting this audit, we evaluated PSN's internal controls we consider to be significant within the context of our audit objective. Included

⁹ We identified and reviewed only one PSN financial statement audit report prepared by an independent CPA. This audit covered the years ending December 31, 2008, and 2009 and contained no audit findings or recommendations. The Executive Director told us in July 2012 that he was not sure if PSN had financial statement audits for years 2010 or 2011.

in this examination were the controls related to cash, specifically, periodic bank reconciliations to identify unauthorized or improper uses of cash.

We determined that PSN's accounting consultant completed bank reconciliations for PSN. However, despite the reconciliations being performed, the Executive Director overrode this control for 2 years and had improperly used PSN's bank card repeatedly during that time. We reviewed PSN's banking records and determined that between July 2008 and September 2010, the Executive Director used the bank card for his own personal needs including retail purchases and cash withdrawals. We determined the funding related to these purchases and withdrawals was associated with the OJP subgrant PSN received from the FDRC and the Pennsylvania state grants.

Prior to the start of our audit, the Executive Director reimbursed PSN for his personal use of the organization's funding in 2010. However, the Executive Director never reimbursed PSN for \$2,218 in personal expenditures that occurred in 2009 that were paid for with FDRC subgrant funding. We determined the Executive Director spent the organization's grant funding on expenditures including a parking ticket for his car (\$393); a hotel stay (\$286), gasoline purchases (\$248), parking and food expenses (\$142) and cash withdrawals for (\$1,149) – all of which were made for his personal activities unrelated to PSN business. In addition, FDRC grant funding was used to pay bank overdraft fees that resulted from these transactions. These expenses related to the PSN's Executive Director's personal use of grant funding totaled \$2,790 and were classified as "nonemployee compensation" in the IRS Form 1099 Miscellaneous Income Statement that the accounting consultant prepared for the Executive Director. We also determined the Executive Director did not reimburse PSN for personal expenditures made with Pennsylvania state grant funding occurring in 2008 and included charges for clothing and restaurants unrelated to PSN business totaling \$1,171. Because PSN did not receive any OJP grants directly or through subgrants until 2009, we have not included these expenditures in our calculation of questioned costs, but include them as a basis for our concerns related to PSN's internal control environment.

We discussed the circumstances surrounding the issue with both the Executive Director and PSN's accounting consultant to understand why the personal use of organizational funds was allowed to continue for 2 years before being stopped, in addition to why some organization funding spent by the Executive Director on personal expenses was not repaid. The Executive Director told us that the accounting consultant had repeatedly told him that he was not permitted to use organizational funds for his personal expenses or cash needs. The accounting consultant told us that the Executive Director

stopped using the bank card and reimbursed PSN after the consultant told the Executive Director that accounting services would no longer be provided if he continued using the bank card in this manner.

As to why some of the Executive Director's personal use of PSN's cash was not repaid or classified as miscellaneous compensation, the Executive Director told us he did not know. The accounting consultant did not answer this question directly but told us that the expenditures were included on the Executive Director's IRS Form 1099 – Miscellaneous Income Statement, as nonemployee compensation, since it would not be included on his IRS Form W-2 Wage and Tax Statement.

We do not believe it is accurate to classify the Executive Director's personal use of PSN's grant funding as "nonemployee compensation" and the Executive Director should have reimbursed PSN for these amounts as well. However, PSN classified these personal outlays as related to the OJP grant funding it received through a subgrant from FDRC. We have therefore identified this issue in a separate report.¹⁰

Our review of control activities also included those controls regarding payroll. We determined that PSN's Executive Director's, the organization's sole employee, daily activities were performed in relative isolation without any oversight by the Board of Directors. The Executive Director also had the sole discretion to determine the amount and frequency of his own paychecks, as he directed a third party payroll provider to issue him a paycheck without the knowledge of the Board. As discussed in the Expenditure section of this report, the lack of any controls on the Executive Director's ability to write his own paycheck, on a monthly or bi-weekly basis, likely resulted in the Executive Director increasing his salary between January 2010 and March 2012 by \$85,065 in excess of the amount authorized by the Board of Directors, for a total salary of \$287,565 during this period.

Another control that the Executive Director was able to override was the requirement to provide sufficient documentation to support checks when requesting payments to be prepared by the accounting consultant. As we described in the expenditure section of this report, PSN did not provide adequate support for expenditures, such as office utility payments. The

¹⁰ U.S. Department of Justice Office of the Inspector General, *Audit of the Office of Justice Programs Bureau of Justice Assistance Grants Awarded to the Father's Day Rally Committee Philadelphia, Pennsylvania*, Audit Report GR-70-14-002 issued January 2014.

accounting consultant told us that checks were often prepared at the request of the Executive Director without supporting documentation provided.

We discussed these issues with the Executive Director and he did not dispute these deficiencies existed, however he told us he was more focused on the program aspects of the grant rather than the fiscal aspects. The Executive Director also told us that receiving the two OJP grants totaling \$800,000 to be used over a 2 year period was a large amount of funding for an organization his size, and if OJP had provided more assistance, such as informing him of the organization's responsibilities as a grantee, these issues could have been avoided. We disagree with what we interpret as the Executive Director's criticism of OJP for not providing PSN with more assistance, especially when PSN applied for these grants voluntarily and the Executive Director told us that OJP never failed to respond to any of his requests for assistance.

In addition, the substantial documentation OJP required the Executive Director to review and sign in order to receive these grants served as his recognition of PSN's and his responsibilities for grant administration. One of these documents, the accounting system and financial capability questionnaire we described earlier, states that the grantee's financial responsibility must be such that the grantee can properly discharge the public trust which accompanies the authority to expend public funds.

We identified other issues with PSN's internal controls specific to the audit objective and discuss them in the respective sections of this report.

Grant Expenditures

Salary Expense

According to the minutes of its initial meetings in early 2008, the Board of Directors authorized a salary for the Executive Director of \$90,000 per year based on his "extensive background" and the "competitive nature of the nonprofit world." As discussed in the internal control section of this report, with the exception of this first act, we found that the Board of Directors did not provide any further oversight of the Executive Director's compensation or review his performance.

We reviewed other PSN documents that suggest the Executive Director's authorized salary had been changed. Although correspondence between PSN and its initial funders, Pennsylvania and FDRC, indicated the Executive Director's maximum annual salary as \$90,000, the two budgets prepared by PSN in 2009 and 2010 and submitted to OJP for the grants we

audited indicated the Executive Director's salary was \$99,000 per year. In addition, we reviewed PSN's application with the Internal Revenue Service (IRS) for tax exempt status submitted in 2010 that indicated that the Executive Director's annual salary, \$99,000, was approved by the PSN Board of Directors and based on comparable salary studies using current market place salaries. Based on our discussions with PSN Board members, we do not believe any members were aware of the salary information provided to OJP or the IRS.

In addition to documents we reviewed that indicated the Executive Director's salary, the Executive Director and accounting consultant told us that in late 2010 they determined a new salary maximum of \$125,000 for the Executive Director. The accounting consultant told us she spoke with PSN's independent CPA to ensure the amount was appropriate but did not discuss the matter with the PSN Board of Directors.¹¹

According to the Commonwealth of Pennsylvania, Office of the Attorney General, individual employees of nonprofits should not be involved in setting their own compensation. In addition, the level of compensation to be paid should be determined independently by the Board of Directors or a committee vested with the authority to set compensation. As the only salary established for the Executive Director that was documented and authorized by the PSN Board of Directors was \$90,000, we have chosen this amount as the maximum salary for the purposes of analyzing salary charges related to these grants. The Executive Director's actual annual salary fluctuated from \$86,876 up to \$146,378 between January, 2009 and March, 2012. He received a total of \$374,442 in compensation during that 39 month time period, and it was funded from multiple sources including a combined \$276,780 from the two grants within the scope of this audit, 2009-DI-BX-0272 and 2010-DD-BX-0471, as well as \$35,145 funded from the OJP subgrant PSN received from the FDRC.

In the following table we compare the Executive Director's actual gross salaries with the salary authorized by the Board of Directors.

¹¹ PSN's independent CPA told us she remembered having a discussion concerning the Executive Director's salary, but did not remember endorsing any salary amount.

Executive Director Salary Analysis

Year*	Authorized Salary	Actual Salary ¹²	Actual Salary (less than)/in excess of Authorized Salary
2009	\$ 90,000	\$ 86,876	\$ (3,124)
2010	90,000	146,378	56,378
2011	90,000	114,859	24,859
2012	22,500	26,328	3,828
Total^a	\$292,500	\$374,442	\$81,942

*This table excludes 2008 because PSN was not in operation for the entire year. The authorized salary for 2012 represents 3 months.

^aTotals may not sum due to rounding.

Source: PSN

At the initiation of our audit, we asked the Executive Director if he had received any type of loans, such as advances on his salary, from PSN. The Executive Director responded in writing stating, "With the knowledge of the Board of Directors, (the Executive Director) has taken advances on his monthly salary, in 2010 and 2011, to offset the personal affects(sic) of the recession. His wife has been unemployed for 2 years and (the Executive Director) asked the Board of Directors, could he take advances, when necessary to stay current on personal financial obligations. These are not 'new' dollars but advances from the salary line-item that has been approved."

As previously mentioned, after reviewing Board meeting minutes and interviewing all of the Board members, we determined that the Board did not approve the advance the Executive Director described in his written response. We also reviewed the response with the Executive Director to ensure we had a complete understanding of the circumstances. After speaking with the Executive Director regarding this issue, we determined that the advances discussed in his written response amounted to a temporary salary increase that he told us he did not intend to repay or "work off" in the future. We believe another way of expressing what the Executive Director stated was that he was eligible for an increase in his salary because the combined amounts budgeted for salary in the two OJP grants was

¹² To calculate the annual amount of excess salary paid with grant funding, we compared actual salaries, paid from all of PSN's funding sources, with the level established by the Board of Directors. We believe this is reasonable as it was not possible to identify which funding source was used for the approved and excess portions of actual salaries. In addition, OJP funding from these grants and the OJP subgrant from FDRC comprise 83 percent of the funding used for salaries between 2009 and 2012, or \$311,925 of \$374,422.

sufficient for him to increase his salary without requesting a budget modification from OJP.

As we describe in the Budget Management and Control section of this report, the performance periods of the two OJP grants overlapped. Grant 2009-DI-BX-0272 was a 2-year grant starting September 2009 and grant 2010-DD-BX-0471 was a 1-year grant starting in October 2010.¹³ Because the planned grant periods for the two grants overlapped for 11 months and OJP approved each grant application to pay 100 percent of the Executive Director's full time salary for each grant period, there was nearly enough budgeted salary to pay 2 years of salary in just 1 year. Although the combined grant budgets provided more funding than the minimum amount necessary for PSN to pay the Executive Director's salary, it did not justify the use of grant funds for the payment of salaries in excess of the maximum amount authorized by the organization's Board of Directors. In addition, we believe these actions amount to the Executive Director setting his own salary which is prohibited by the Handbook for Charitable Nonprofit Organizations, Commonwealth of Pennsylvania, Office of the Attorney General.

We believe that the unauthorized, excess salary the Executive Director paid himself, totaling \$81,942, is unallowable and constitutes abuse. As defined by generally accepted government auditing standards, abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.

In addition to the excess salary the Executive Director paid himself without the approval or knowledge of the Board, we determined that the salary he was paid was unreasonable. According to the Commonwealth of Pennsylvania, Office of the Attorney General, "In the event that compensation is received, the amount must be reasonable based on the value of the services rendered; it must not be excessive."

We reviewed the Executive Director's actual salary from all funding sources totaling \$374,442 as described in the table above. This included funding of \$276,780 provided from the two grants we audited that were active between September 2009 and March 2012. As described in the program performance section of this report, during this time PSN held 12

¹³ Subsequent to the award of each grant, PSN received no cost extensions for both grants. However, grant 2009-D1-BX-0272 was extended from 24 months to 27 months and grant 2010-DD-BX-0471 was extended from 12 months to 18 months.

gun buy-back events and about 11 gun safety workshops.¹⁴ According to the semi-annual progress reports that PSN submitted during this period, PSN was either planning or holding gun buy-back events and workshops during each 6 month period. These progress reports also indicated PSN was working on programs with the Philadelphia Mayor's Office. As presented in the internal control environment section of this report, although the Board approved the Executive Director's salary at the time the organization was formed, the Board never documented that it considered the value of his services, evaluated his duties and responsibilities, or monitored his performance. We therefore consider all of the salary expenditures for the Executive Director to be unreasonable.

As previously described in the Internal Control section of this report, the PSN Board provided almost no oversight of the Executive Director's day to day activities and never evaluated his performance. In addition, the Executive Director told us he did not maintain documentation that could be used to evaluate his day to day activities during the grant period. According to the OJP Financial Guide, salaries paid with grant funding must be documented and approved by a responsible official of the organization. Even in cases where 100 percent of salary charges relate entirely to one grant award, after the fact certifications that the employee is working 100 percent of their time on the grant award must be prepared no less frequently than every 6 months, and must be signed by the employee and supervisory official having firsthand knowledge of the work performed. Because none of the Executive Director's salary was documented according to the OJP Financial Guide, we have determined all salary paid with grant funding totaling \$276,780 to be unsupported.

We furthered our understanding of the nature of PSN's expenditures for the Executive Director's salary by reviewing its audited financial statements for 2008 and 2009. According to the statements, in both 2008 and 2009, 10 percent of the Executive Director's salary was allocated to fundraising activities. In addition, the Executive Director told us he believes he also spent about 10 percent of his time on fundraising activities through March 2012. We asked both the Executive Director and the independent

¹⁴ Between January 2009 and March 2012 PSN participated in 12 gun buy-back events. We determined that for five of these events, PSN purchased gift cards with funding from either grant 2009-D1-BX-0272 or 2010-DD-BX-0471. At another five events, PSN purchased gift cards using funding from an OJP subgrant received from FDRC. At the remaining two events, PSN purchased no gift cards but instead purchased radio advertising to promote the events. Because PSN did not create documentation to track the disposition of the gift cards by event, our reconciliation was based on the sum of cards purchased compared to the number of guns collected at the 10 events for which PSN purchased gift cards.

CPA that completed the audit of the financial statements if they could provide any documentation to support the assertion that 10 percent of the Executive Director's salary was related to fundraising. Both the Executive Director and the independent CPA told us the 10 percent was an estimate the Executive Director made without source documentation.

According to the OJP Financial Guide, grant funding may not be used to pay the salary of persons while engaged in fundraising activities. We determined that between 2009 and 2012 PSN claimed that \$37,444, or 10 percent of the Executive Director's total salary of \$374,442 over this period, was related to fundraising activities and identified this amount as unallowable.

In summary, PSN used funding from the grants we audited for Executive Director's salary totaling \$276,780. We determined that these expenses were: (1) unallowable because it exceeded the amount authorized by the PSN Board of Directors, (2) unreasonable because it was not based on the value of services rendered, (3) unsupported, and (4) unallowable because it was used to support fundraising activities.

Fringe Benefits Expense

Related to the Executive Director's salary expenses we reviewed, PSN used grant funding totaling \$69,614 to pay for fringe benefits including payroll taxes, health insurance, and retirement plan expenses as part of the Executive Director's compensation. Although OJP approved the use of grant funding for these fringe expenses and they were supported, we determined the amount of grant funding used for these costs were excessive. Additionally, included in this total are unallowable fringe benefits of \$19,201 associated with salary that exceeded the amount approved by the PSN Board and \$7,712 specific to salary used to support fundraising activities.

Our audit findings related to these fringe benefits mirror our salary related audit findings and we question the entire amount of grant funding used for fringe benefits totaling \$69,614 as follows: (1) unallowable because the benefits were based on a salary calculation that exceeded the amount authorized by the PSN Board of Directors, (2) unreasonable because the benefits were based on a salary that was not based on the value of services rendered, (3) unsupported, and (4) unallowable because a portion of the salary charges were expended in support of fundraising activities.

Gift Card Expenditures

The "Goods for Guns" initiative was PSN's major program and entailed exchanging guns turned in by the public for grocery store gift cards. Between July 2010 and March 2012, PSN financially supported seven "Goods for Guns" events using funding from grant 2009-DD-BX-0272 or grant 2010-DD-BX-0417 in different locations around Philadelphia, Pennsylvania.

At each of these events, the Philadelphia Police Department collected guns while the PSN Executive Director or grocery store representatives distributed \$100 gift cards. The gift cards were generally purchased by PSN from two local grocery stores, usually at a discount. However, one grocery store also donated a total of 464 gift cards for events that occurred in 2009.

We determined that between January 2009 and February 2012, PSN purchased or received donated gift cards totaling \$323,400. The amount charged to the two OJP grants for gift cards was \$265,215, and we confirmed these amounts with the grocery stores that sold or donated the gift cards. We also determined both OJP grant budgets provided for the purchase of gift cards. Given the value and portability of these gift cards, we provide a complete discussion regarding their disposition and PSN's actions to safeguard them in the Accountable Property section of this report.

Advertising Expenditures

We determined that PSN used \$104,900 in grant funding to promote six gun buy-back events through local radio advertising. We performed a testing of sampled invoices and determined that PSN's use of grant funds for the radio advertising was allowable and adequately supported.

Rent and Utilities Expenditures

PSN's principal place of business was an office rented for \$600 per month. As PSN's sole employee, the Executive Director told us he worked alone in this office 5 or 6 days per week except for times he was arranging or holding gun buy-back events or workshops. Between December 2009 and March 2012, PSN used grant funding totaling \$17,482 to pay the rent and related taxes. We determined these rent-related expenditures were allowable as the costs were approved by the OJP in the grant budget and supported by a written lease.

PSN also used OJP grant funding to pay the costs of utilities for this office totaling \$9,694. The utilities included electric, cable, telephone, and internet service. While the utility expenditures were allowable according to

the grant budget approved by OJP, we requested but did not receive from PSN the invoices associated with the utilities. As a result, we identified the utility expenditures totaling \$9,694 as unsupported as we could not determine what the charges were made for specifically, or whether the charges were related to the grants we audited.

As described in the internal control section of this report, the Executive Director frequently instructed the accounting consultant to prepare disbursement checks without providing the supporting documentation. The accounting consultant told us the Executive Director was repeatedly asked to provide support for utility payment requests, but these instructions were often not followed.

In addition to maintaining an office used by its Executive Director, PSN rented an entire building to operate a Senior Safety Program. Between November 2010 and March 2012, PSN charged \$29,750 in OJP grant funding to pay the monthly rent of \$1,750 on this building and another \$4,253 for related utilities for a total of \$34,003. At the conclusion of this audit, the Executive Director told us that during the time PSN paid rent for this building, the building had been used less than 12 times for workshops or similar events. Because the building was used, on average, less than 1 day per month for workshops and PSN was still renting its principal office for \$600 per month, we asked the Executive Director whether a more cost efficient space could have been secured from another civic organization in the area at a lower cost or on a donated basis. The Executive Director told us that he decided to rent this building for its location and to avoid negotiating for space elsewhere that may not have been available at all times. In addition, the Executive Director told us it was not fair to second guess his decisions at the end of the grant when OJP did not assist him during the grant.

In summary, we determined that PSN's utility expenses related to its primary office, \$9,694, and for the separate building used to operate the Senior Safety Program, \$4,253, totaling \$13,947, were unsupported. We also believe the \$29,750 charged to the grants for rent and \$4,253 for utilities, totaling \$34,003, on the separate under-utilized building was an unreasonable use of grant funding and we identified these expenditures as questioned costs.

Accounting Consultant

As described in the internal control environment section of this report, PSN hired a commercial consultant who provided bookkeeping services using its own accounting system.¹⁵ We determined that PSN paid the consultant \$1,203 per month for services related to grant 2009-D1-BX-0272 and \$1,126 per month for services related to grant 2010-DD-BX-0471, for a total of \$52,792.¹⁶ As we interacted extensively with PSN's accounting consultant and used its records in completing our audit, we determined the amounts paid to the consultant were supported and allowable per the grant budgets.

We reviewed the written contract between PSN and its accounting consultant, which authorized the monthly payments to the contractor for the OJP grants based on 6 percent of the total grant

We also reviewed the contract between PSN and its accounting consultant that was in place prior to receiving these OJP grants, which based the consultant's monthly payment on estimated hours and rates for specific services being provided. The monthly payment under this contract was calculated at \$1,040 based on 18 hours of services at rates ranging from \$50 to \$150 per hour and averaging \$57.78 per hour.

However, according to the OJP Financial Guide in effect at the time PSN hired its accounting consultant, these types of commercial organizations were subject to competitive bidding procedures. The Executive Director told us he selected the accounting consultant based on a recommendation and did not use a competitive bidding process.

Therefore, because PSN did not adhere to OJP's requirements related to commercial consultants, we have identified the entire amount they were paid from grant funding, \$52,792, as unallowable. In addition, we believe it was inappropriate for PSN to use a percentage of the overall grant amount as the basis for the consultant fees.

Accountable Property

As described in the expenditure section, PSN's "Goods for Guns" initiative distributed purchased and donated \$100 grocery store gift cards in exchange for each gun surrendered to the Philadelphia Police Department.

¹⁵ The 2009 OJP Financial Guide treats commercial consultants differently than independent consultants.

¹⁶ One of the 28 monthly payments related to grant 2009-D1-BX-0272 was \$1,168.

Given the value and portability of these gift cards, we considered them accountable property for the purpose of our audit.

As part of this audit, we sought to account for (1) the number of gift cards purchased or donated for the program, (2) the number of gift cards distributed according to grocery store records, and (3) the number of guns collected according to police department reports. In total, PSN held 12 "Goods for Guns" events between January 2009 and March 2012. We determined the procedures used to safeguard the gift cards at the first seven events were different than the following five events, and we discuss them separately in the remainder of this section.

We determined that for the first seven events, which included five events funded by the subgrant FDRC and two events funded by grant 2009-DD-BX-0272, the representatives of the grocery stores that sold or donated gift cards to PSN also maintained continuous custody of the cards until they were handed to the members of the public who surrendered guns to police officers. Only at the conclusion of the seventh event did the PSN Executive Director take physical possession of any gift cards. We also determined that at each of these events, the PSN Executive Director did not document the number of cards distributed or reconcile the number of cards distributed with the number of guns collected according to police department reports.

At the conclusion of the seventh event on October 30, 2010, grocery store records indicated that 170 gift cards were turned over to the PSN Executive Director. Prior to the next event in October 2011, we determined through our own physical count that PSN had 169 gift cards on hand in its offices. The PSN Executive Director told us he had no records to track the number of cards in PSN's possession and the gift cards were kept in a PSN filing cabinet.

At the three remaining "Goods for Guns" events between October 2011 and March 2012 for which PSN purchased gift cards, the grocery store representatives had no role in maintaining custody or distributing cards at the events. The PSN Executive Director told us that he purchased the gift cards from the stores prior to the events rather than having store representatives provide the cards at the events. He then brought the gift cards to each event, distributed the gift cards at each event, then returned any unused gift cards to the PSN office for use at a future event. He also told us he did not document the number of gift cards distributed at each event or reconcile the number of gift cards distributed with the number of guns collected.

We asked the PSN Executive Director and grocery store representatives why the number of gift cards distributed did not match the number of gift cards purchased and donated when compared to the number of guns collected. The Executive Director explained the difference was likely due to gift cards being distributed to people who turned in toy guns or broken guns and these were not reported in the police department reports. In two events, police department reports noted that toy guns were turned in, however there was no documentation supporting whether gift cards were provided for the toy guns in these instances and no documentation of toy guns being submitted existed for the other events.

We conducted another physical count of the cards in September 2012 and determined that although the grant had ended 6 months earlier, the Executive Director still had 83 cards, worth \$8,300 in his possession. We asked the PSN Executive Director why he still had these gift cards and what he planned to do with the cards. The Executive Director told us that he maintained possession of the cards at his home after the conclusion of the grants and that the OJP grant manager had been attempting to contact him and that he was planning to call the grant manager back to discuss this and other issues.

In addition to the gift cards that had been provided to those individuals trading in guns at the grant sponsored events, the Executive Director also told us that he had given about 12 cards to individuals who showed up at the events that he described as hungry and poor, but who did not trade in a gun for a card.

In summary, during our audit we determined that the number of gift cards purchased and donated for the "Goods for Guns" programs exceeded the number of guns collected by 280, with an overall value of \$28,000. From our review of the available documentation during the course of the audit, PSN purchased or was given 3,234 gift cards but only collected 2,871 guns. Of the 363 in excess gift cards, we determined that PSN still held 83 cards after both grants had concluded and did not use them for grant purposes. Accordingly, we have identified the cost of these cards, \$8,300, as unallowable. In addition, we consider the remaining balance of 280 gift cards as unaccounted for. Because PSN did not separately account for those cards purchased and donated, we must consider all the unaccounted cards as being grant-funded at their full value and unsupported grant expenditures. As a result, we question \$28,000 of unsupported grant expenditures.

Drawdowns

We reviewed the timing and amounts of the requests for grant funding or drawdowns that PSN made related to these two OJP grants. We also reviewed the procedures PSN followed to ensure these requests complied with related OJP requirements. According to the OJP Financial Guide, drawdowns of grant funding must be based on the immediate cash needs of the grantee as a reimbursement for expenditures already paid by the grantee or as an advance to pay expenditures in the near future. In the case of drawdowns as advances, if grantees do not spend the funds received within 10 days, the funding should be returned to OJP until such time that it is needed.

According to OJP records, PSN received \$771,137 through 52 separate requests for the 2 OJP grants. The following table summarizes the funding PSN received.

**Drawdown Summary for PSN Grants
as of August 2012**

Grant	Number of Drawdowns	Net Drawdown Total
2009-D1-BX-0272	31	\$495,051
2010-DD-BX-0471	21	276,086
Total	52	\$771,137

Source: OJP

The PSN Executive Director told us that he, rather than the accounting consultant, made the drawdowns for both OJP grants, and the drawdowns were made in advance of incurring or paying for underlying expenditures.

When we examined the listing of drawdowns related to grant 2010-DD-0471, we noted PSN returned \$80,000 in grant funds during April 2011. Prior to this repayment, PSN requested and received approximately \$103,000 between December 2010 and February 2011. When we examined PSN's bank statements, we discovered that one of PSN's bank accounts had an average daily balance of approximately \$90,000 for more than 70 days.

In addition, after both grants performance periods were over in July 2012, we compared the value of all drawdowns with the amount of expenditures reported in the accounting records. This comparison showed that PSN had received drawdowns totaling \$790,681 but only recorded grant related expenditures of \$771,353, resulting in excess cash on hand of \$19,328. According to OJP records, PSN's final drawdown was made on February 24, 2012, for \$18,000, indicating that PSN had excess grant cash

on hand for approximately 4 months after the conclusion of the grant performance period because both grants ended on March 31, 2012. We also determined from its accounting reports that PSN had excess cash from its OJP subgrant from FDRC and its state grants from Pennsylvania. The following table summarizes the excess grant funds PSN held after each of these grants concluded.

Summary of Excess Cash Held by PSN

Grant	Excess Cash Held
PSN OJP Grant 2010	\$ 14,379
PSN OJP Grant 2009	4,949
FDRC OJP Grant	3,441
Pennsylvania State Grants	4,075
Total	\$ 26,844

Source: OIG analysis.

In July 2012, we inspected PSN’s banking records to determine whether the bank accounts contained the \$19,328 in excess cash related to these two OJP grants. According to its June 2012 bank statements, PSN had \$20,101 in cash in separate bank accounts, \$6,743 less than the amount we calculated as excess grant cash. We discussed the issue of excess cash on hand with the Executive Director who told us that after the problems related to the use of the bank card for personal expenditures, he did not pay close attention to the bank accounts.

Also, in July 2012, and unrelated to our audit, OJP requested that PSN return the excess funds drawn down related to grants 2009-D1-BX-0272 and 2010-DD-BX-0471. We determined PSN finally returned the excess drawdowns on these grants in August 2012 after having this excess cash on hand since January 2012 for grant 2009-D1-BX-0272 and February 2012 for grant 2010-DD-BX-0471. In addition, the Executive Director expressed to us that he intended to repay the excess cash received from the OJP subgrant PSN received from FDRC. This issue is addressed in a separate OIG audit report covering grant 2008-DD-BX-0575.

Budget Management and Control

We determined that prior to awarding PSN these two grants, OJP approved a spending plan for each grant that specified the cost categories and amounts to be spent for each category. According to the OJP Financial Guide, grantee’s actual spending may not exceed any budget cost category by more than 10 percent of the total grant award without approval from the granting agency. The following table presents PSN’s approved budgets for each grant.

Budget Analysis for OJP Grants Awarded to PSN

Grant Number	2009-D1-BX-0272	2010-DD-BX-0471	Total (both grants)
Grant Period	9/1/09-8/31/11	10/1/10-9/30/11	25 months ^a
Cost Category			
Salary	\$198,000	\$ 99,000	\$297,000
Fringe	60,429	32,185	92,614
Supplies	0	45,000	45,000
Equipment	2,197	0	2,197
Contractual	82,590	115,795	198,385
Other	156,784	8,020	164,804
Total	\$500,000	\$300,000	\$800,000

a. Grant period of 25 months calculated from 9/1/09 to 9/30/11.

Source: PSN

We compared PSN's actual spending in each of the approved cost categories for each grant and determined PSN did not exceed any grant category by more than 10 percent. However, as shown in the preceding table, the two planned grant periods overlapped for 11 months, from October 2010 through August 2011. Because Salary and Fringe amounts were both budgeted for during the same period, this created excess funding that the Executive Director used to pay himself above his salary approved by the PSN Board of Directors (\$90,000) and OJP (\$99,000).

As we described in the Grant Expenditure section of this report, the combined grant budgets provided more funding than necessary for PSN to pay the Executive Director's salary. Although it provides additional funding, the approved OJP funding does not give PSN the authority to use grant funding to pay actual salaries in excess of the amount authorized by the organization's Board of Directors. As a result, the excess salary was questioned in the Grant Expenditures section.

Reporting

Federal Financial Reports (FFRs) and progress reports are the principal methods OJP uses to monitor performance of its grants.¹⁷ FFRs summarize, federal monies spent, unliquidated obligations incurred, and unobligated

¹⁷ As of October 2009, OJP renamed FSRs Federal Financial Reports (FFRs) and changed the reporting date from 45 to 30 following the end of the previous calendar quarter.

balances of federal funds for each calendar quarter. Progress reports describe the activities grantees have achieved or are planning on a semi-annual basis.

We determined PSN was required to submit 10 FFRs related to grant 2009-D1-BX-0272 and 6 FFRs related to grant 2010-DD-BX-0471. We determined the 16 FFRs submitted by PSN were accurate. However, we found that four of the reports were late by more than 5 days - OJP requires grantees to submit FFRs within 30 days following the end of each calendar quarter. Of particular concern, we found that the final FFRs for grants 2009-D1-BX-0272 and 2010-DD-BX-0471 were submitted 85 and 94 days late respectively.

We also reviewed the nine progress reports PSN was required to submit for each grant. These reports indicated the planned and completed actions related to each grant using information PSN provided in response to standard questions and brief narratives. We determined the final report for each grant was never submitted, and two other progress reports were not submitted on time. The following table is our summary of the most significant accomplishments PSN described in its progress reports related to the OJP grants.

Progress Report Summary for Grants Awarded to PSN

Period Ending	Grant 2009-D1-BX-0272	Grant 2010-DD-BX-0471
12/31/2009	Re-established partnerships with local elected officials, supermarkets, and radio station to hold gun buy-back events and planning events	No report required. Grant start date 10/1/2010
06/30/2010	1 workshop for 25 school children, 1 gun buy-back event collected 375 guns	No report required. Grant start date 10/1/2010
12/31/2010	1 workshop for 50 school children, 1 gun buy-back events collected 275 guns	Established Senior Safety Center, mailed flyers, planned for gun buy-back events
06/30/2011	3 Senior Safety workshops, 3 workshops for school children, collaborated with Philadelphia Mayor's Office	3 Senior Safety Workshops, 2 mailings for 5,000 households, developed coordinating activities with the Philadelphia Mayor's Office
12/31/2011	No report submitted	Scheduled 3 workshops for 100 school children, held 3 gun buy-back events collecting over 1,000 guns, collected 75 surveys by visiting 500 homes
06/30/2012	No report required. Grant end date 12/31/11	No report submitted.

Source: OJP

We believe the information from the progress reports summarized in the table above, and other information PSN included in these progress reports, is generally consistent with what we learned about the grant-funded activities through interviews we conducted and our review of expenditures. Because we verified the number of guns collected in our review of PSN's handling of the related gift cards, we were able to verify the number of guns collected according to the progress reports. We found that each of the three reports that indicated the number of guns collected were misstated as follows:

- The June 30, 2010, report for grant 2009-DI-BX-0272 overstated the number of guns collected by 25,375 compared to 350 actual.
- The December 31, 2010, report for grant 2009-DI-BX-0272 overstated the number of guns collected by 18,275 compared to 257 actual.

- The December 31, 2011, report for grant 2010-DD-BX-0471 reported that over 1,000 guns were collected but does not indicate that over 500 of these guns were collected by another nonprofit organization using state grant funding. PSN's involvement was limited to the purchase of advertising to promote the events.

Program Performance and Accomplishments

The following table presents the performance goals for each OJP grant awarded to PSN.

Performance Measures for OJP Grants Awarded to PSN

Grant	Guns to be collected	Number of adults attending gun safety workshops	Number of school children attending firearm awareness workshops	Number of people reached using safety tips radio effort
2009-D1-BX-0272	2,000	200	200	10,000
2010-DD-BX-0471	1,000	100	100	10,000
Total	3,000	300	300	20,000

Source: OJP

Because PSN's primary program involved reducing the number guns available to commit crime, and we verified the number of guns collected in our review of PSN's handling of the related gift cards, we focused our review of PSN's grant-related accomplishments on the goals related to collecting guns. The performance measures proposed by PSN and approved by OJP at the start of these grants established a number of gun buy-back events to be held and the number of guns to be collected. We determined that, combined, there were a total of 10 planned events for the 2 OJP grants; 8 related to grant 2009-D1-BX-0272 and 2 related to grant 2010-DD-BX-0471. While we verified that PSN held the two planned events related to grant 2010-DD-BX-0471, it only held four of the eight planned events related to grant 2009-D1-BX-0272.

We also measured PSN's performance collecting guns by comparing the goals established in grant award documentation to the actual number of guns collected using grant funds. We determined that the amount of funding budgeted for these grants was not sufficient to purchase the number of gift cards necessary to collect the number of guns established in the grant documentation. Therefore, we compared the number of \$100 gift cards that

could be purchased with the budgeted amounts with the actual number of guns collected. The following table summarizes this comparison.

Analysis of Guns Collected and Related Performance Goals

Grant	Number of guns to collect per performance goal	Number of guns possible to collect with budgeted funding	Number of guns actually collected using grant funding
Grant 2009-D1-BX-0272	2,000	1,200	904
Grant 2010-DD-BX-0471	1,000	400	325
Total	3,000	1,600	1,229

Source: OJP and OIG analysis

The remaining performance goal involved using radio advertising to provide gun safety tips to 20,000 people. The invoices for the radio advertising expenses we reviewed indicated the purpose of the radio advertising was to promote the gun buy-back events and not to provide gun safety tips.

Although we determined PSN demonstrated that it worked toward achieving the performance goals established for these grants, it did not meet the primary goals related to the number of gun buy-back events held and the number of guns collected using budgeted grant funding. PSN also did not provide us with documentation indicating it achieved the performance goals related to providing workshops for school children and adults or implementing the radio safety tip program.

In addition to our concerns regarding PSN's effectiveness in achieving its goals, we are equally concerned with PSN's inefficient use of OJP grant funding. In our opinion, the level of activity related to a small number of events and workshops did not justify the substantial amount of grant funding received. In particular we are concerned that OJP grant funding was used for the Executive Director's salary that we consider excessive and unreasonable, as well as the lack of oversight provided by the Board of Directors, and the unnecessary rent and utilities paid for a second building that was underutilized.

In our view, we are confident that gun buy-back programs can be implemented at much lower costs compared to the way PSN implemented its program using OJP grants.

Conclusions

We determined that PSN had several internal control deficiencies in performing its grant-related program, and as a result, these deficiencies led to our audit findings. Specifically, the lack of proper oversight enabled the Executive Director to receive advances to a salary not authorized by the PSN Board of Directors. In addition, the overlapping grant periods provided the Executive Director with excess salary. We believe the Executive Director's compensation was unallowable and unreasonable.

We also determined that PSN charged unallowable and unsupported grant expenditures to the grants. PSN failed to properly safeguard grant-funded property, had excess cash on hand, and did not meet the primary goals related to the number of gun buy-back events held and the number of guns collected using budgeted grant funds.

Because of these deficiencies, we identified \$ 479,183 in expenditures that were either unallowable, unsupported, or unreasonable.

Recommendations

We recommend that OJP:

1. Ensure that PSN establishes and adheres to internal control practices that: (a) prevent the appearance of impropriety by avoiding potential or apparent conflicts of interests on its Board of Directors, (b) provide oversight of the Executive Director by its Board of Directors, (c) maintain supporting documentation for all expenditures, (d) detect and prevent the use of grant funds for personal purposes in a timely manner, (e) ensure accountable property is properly safeguarded, (f) ensure payments to consultants conform with OJP requirements, (g) ensure requests for grant funding are based on immediate cash needs in order to avoid excess cash on hand, (h) avoid potentially wasteful spending using cost benefit analyses for significant expenditures, and (i) ensure timely reporting.
2. Ensure that PSN establishes and adheres to policies and procedures to ensure that: (a) the Executive Director's compensation is based on an analysis of his documented workload and performance, (b) the Executive Director is not paid in excess of his Board approved salary and fringe benefit levels, and (c) OJP grant funding is not used for the Executive Director's fundraising activities.

3. Remedy \$101,143 in questioned unallowable costs, which include the Executive Director's salary (\$81,942) and associated fringe benefits (\$19,201) paid with OJP grant funding, but were not approved by the PSN Board of Directors.
4. Remedy \$346,394 in questioned unreasonable costs, which include the Executive Director's salary (\$276,780) and associated fringe benefits (\$69,614) paid with OJP grant funding, but were neither approved by the PSN Board of Directors, nor based on the value of services rendered.
5. Remedy \$346,394 in questioned unsupported costs, which include the Executive Director's salary (\$276,780) and associated fringe benefits (\$69,614) paid with OJP grant funding, but were neither approved by the PSN Board of Directors, nor adequately documented in accordance with the grant terms.
6. Remedy \$45,156 in questioned unallowable costs, which represents the portion of the Executive Director's salary (\$37,444) and associated fringe benefits (\$7,712) paid with OJP grant funding which PSN estimates was used for fundraising activities.
7. Remedy the \$8,300 in questioned unallowable costs for gift card expenditures that did not result in guns collected by the Philadelphia Police Department.
8. Remedy \$28,000 in questioned unsupported costs for gift card expenditures that did not result in guns collected by the Philadelphia Police Department.
9. Remedy \$13,947 in questioned unsupported costs for utility expenditures which were not adequately documented in accordance with grant terms.
10. Remedy \$34,003 in questioned unreasonable costs for rent and utilities on an underutilized building.
11. Remedy \$52,792 in unallowable consultant expenditures.¹⁸

¹⁸ The draft audit report we provided to OJP and PSN incorrectly identified the amount of questioned costs related to Recommendation 11 as totaling \$53,915. This final report has been revised to identify the correct amount of \$52,792.

OBJECTIVE, SCOPE, AND METHODOLOGY

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

(1) internal control environment, (2) grant expenditures, (3) accountable property, (4) drawdowns (5) budget management and control, (6) reporting, and (7) program performance and accomplishments. We determined that program income, matching costs, indirect costs, and monitoring of contractors and subgrantees were not applicable to these grants.

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

In conducting our audit, we used sample testing while testing grant expenditures. In this effort, we employed a judgmental sampling design to obtain broad exposure to numerous facets of the grants reviewed, such as high dollar amounts or expenditure category based on the approved grant budget. This non-statistical sample design does not allow for the projection of the test results to the universes from which the samples were selected.

Our audit concentrated on, but was not limited to, the award of the 2009-D1-BX-0272 grant on September 1, 2009, through August 2012. This was an audit of the Office of Justice Program's Edward Byrne Memorial Justice Assistance Grants numbers 2009-D1-BX-0272 and 2010-DD-BX-0471 awarded to the Project Safety Net Program (PSN) of Philadelphia, Pennsylvania, in the amounts of \$500,000 and \$300,000. PSN had a total of \$771,137 in net drawdowns in August 2012.

We tested compliance with what we consider to be the most important conditions of the grants. Unless otherwise stated in our report, the criteria we audit against are contained in the OJP Financial Guide and the award documents.

In conducting our audit, we reviewed all claimed grant-related expenditures and drawdowns. In addition, we reviewed the timeliness and accuracy of FFRs and progress reports, and evaluated the performance of the grants in relation to the grant objectives. However, we did not test the reliability of the PSN's financial management system as a whole.

APPENDIX II

SCHEDULE OF DOLLAR-RELATED FINDINGS

<u>QUESTIONED COSTS</u> ¹⁹	<u>AMOUNT</u>	<u>PAGE</u>
Unallowable Costs:		
Director's salary in excess of Board approved levels	\$ 81,942	11
Director's salary related to fundraising activities	37,444	14
Director's fringe benefits in excess of Board approved levels	19,201	14
Director's fringe benefits related to fundraising activities	7,712	14
Consultant expenditures	52,792	17
Gift card expenditures	8,300	19
Total Unallowable Costs	\$207,391	
Unsupported Costs:		
Director's salary	\$276,780	13
Director's fringe benefits	69,614	14
Utilities expenditures	13,947	16
Gift card expenditures	28,000	19
Total Unsupported Costs	\$388,341	
Unreasonable Costs:		
Director's salary	\$ 276,780	13
Director's fringe benefits	69,614	14
Rent and utilities on an underused building	34,003	16
Total Unreasonable Costs	\$380,397	
TOTAL GROSS QUESTIONED COSTS	\$976,129	
LESS DUPLICATION ²⁰	<u>(\$496,946)</u>	
TOTAL NET QUESTIONED COSTS	\$479,183	

¹⁹ 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.

²⁰ These costs relate to identical expenditures—though questioned for separate reasons—and as a result, that portion of questioned costs is duplicated. We reduced the amount of gross questioned costs by the amount of this duplication to identify net questioned costs.

PHILADELPHIA SAFETY NET RESPONSE TO THE DRAFT AUDIT REPORT

Introduction narrative:

Philadelphia Safety Net is indebted to the support of the Edward Byrne Memorial Justice Assistance Grant award process for its support of the activities of Philadelphia Safety Net. As a 'new' non-profit, our aim in executing our grants was to collect guns off the street from dangerous neighborhoods and educate Philadelphia residents on violence prevention/safety issues. It is our hope that our actions and activities will receive fair consideration. We have included the accounting system and financial capability questionnaire, schedule A, attached to item number 11 on the recommendation. We are requesting that not make this scheduled A document public.

Philadelphia Safety Net's Executive Director, Raymond Jones', responses to audit recommendations suggested by

The U.S. Department of Justice, Office of the Inspector General

1. Ensure that PSN establishes and adheres to internal control practices that: (a). prevent the appearance of impropriety by avoiding potential or apparent conflicts of interests on its Board of Directors. (PSN response) Philadelphia Safety Net concurs with this recommendation and has currently suspended all operations of the organization until a new board of directors are elected. In January, 2014, Philadelphia Safety Net president, Raymond Jones, will meet with an independent professional non-profit consultant to discuss an extensive plan to educate and recruit new board members and re-examine the mission of Philadelphia Safety as it relates to board oversight and the parameters of the Executive Director.

(b). provide oversight of the Executive Director by its Board of Directors (PSN response) Philadelphia Safety Net concurs with this recommendation and in January, 2014, under the direction of the professional non-profit facilitator, the Executive Director will accept any and all detailed recommendations to ensure holistic and transparent long-term discipline oversight with the necessary protective and punitive measures in place.

(c). maintain supporting documentation for all expenditures (PSN response) Philadelphia Safety Net concurs with this assessment. However, all supporting documentation was provided to DOJ except as addressed in number 9.

(d). detect and prevent the use of grant funds for personal purposes in a timely manner (PSN response) Philadelphia Safety Net concurs with this recommendation and the time table for these regulations will become a part of the January, 2014 overall assessment of the non-profit, Philadelphia Safety Net, using the audit as a basis for re-examining strengths, weaknesses, opportunities and threats of the organizations—complete with a time-table for improvements and changes.

(e). ensure accountable property is properly safeguarded (PSN response) Philadelphia Safety Net concurs with this recommendation and will address this issue at the January, 2014 assessment overview.

(f). ensure payments to consultants conform with OJP requirements (PSN response) Philadelphia Safety Net disagrees with this recommendation. The accounting professionals were 'consultants' of Philadelphia Safety Net before PSN received the DOJ grants. The consultant activity was then extended throughout the life of the federal grants.

(g). ensure requests for grant funding are based on immediate case needs in order to avoid excess cash on hand (PSN response) Philadelphia Safety Net concurs with that recommendation and was requested to return excess funds and did, expeditiously. The meeting in January, 2014, will address this issue and all activity that Philadelphia Safety Net focuses on in the future (complete with measurable outcomes and quantifiable goals).

(h). avoid potentially wasteful spending using cost benefit analyses for significant expenditures (PSN response) Philadelphia Safety Net concurs with this recommendation and will address this item in the January, 2014, assessment and "re-examination" of Philadelphia Safety Net's mission, policies, goals and long-term focus.

(i). ensure timely reporting (PSN response) Philadelphia Safety Net agrees with this recommendation and will address this item in the January, 2014, assessment and 're-examination' of Philadelphia Safety Net's mission, policies, goals and long-term focus.

2. Ensure that PSN establishes and adheres to policies and procedures to ensure that: (a) the Executive Director's compensation is based on an analysis of his documented workload and performance (PSN response) Philadelphia Safety Net disagrees with this recommendation and, due to the 'duties' that the Executive Director performed, the salary was commiserate with an executive in the corporate world who managed a similar budget and was responsible for similar outcomes with the exact work experience.

(b). The Executive Director is not paid in excess of this Board approved salary and fringe benefits levels (PSN concurs—in part, although there was not written approval, the Executive Director justified the increase in part because of the understanding the budget could be changed, as long as the change did not exceed 10% of the budget (The OJP rules stipulate that the grantee did not need "approval" to change the budget as long as the budget did not exceed 10% of the budget. It was the understanding of the Executive Director that changes also included salary).

(c). OJP grant funding is not used for the Executive Director's fundraising activities (PSN response) Philadelphia concurs with this recommendation. The funds used for 'exploring' possible grant opportunities were less than 1% of the total grants.

3. Remedy \$101, 143 in questioned unallowable costs, which include the Executive Director's salary of (\$81,942) and associated fringe benefits (\$19,201) paid with OJP grant funding but were not approved by the PSN Board of Directors) .(PSN response) Philadelphia Safety Net disagrees with this response. Under the contract and execution of both grants, the executive director duties were as follows: Project Manager, responsible for locations, logistics and follow-up of events. Public Relations Director, responsible for writing public service announcements, scheduling meetings with the press

and developing contents for flyers and postcards. Grant manager, responsible for sending reports to the Department of Justice and following the process of executing the grants. Office Manager, processing the day-to-day operational functions for PSN including paying bills and managing two offices. Outreach Coordinator, responsible for scheduling Training for the Philadelphia Safety Net community outreach project in the Mt. Airy section of Philadelphia.

4. Remedy \$346,394 in questioned unreasonable costs, which include the Executive Director's salary (276,780) and associated fringe benefits (\$69,614) paid with OJP grant funding, but were approved by the PSN Board of Directors. (PSN response) Philadelphia Safety Net disagrees with this response. Under the contract and execution of both grants, the executive director duties were as follows: Project Manager, responsible for locations, logistics and follow-up of events. Public Relations Director, responsible for writing public service announcements, scheduling meetings with the press and developing contents for flyers and postcards. Grant manager, responsible for sending reports to the Department of Justice and following the process of executing the grants. Office Manager, processing the day-to-day operational functions for PSN including paying bills and managing two offices. Outreach Coordinator, responsible for scheduling Training for the Philadelphia Safety Net community outreach project in the Mt. Airy section of Philadelphia.

5. Remedy \$346,394 in questioned unsupported costs, which include the Executive Director's salary (\$276,780) and associated fringe benefits (\$69,614) paid with OJP grant funding, but were neither approved by the PSN Board of Directors, not adequately documented in accordance with the grant terms. (PSN response) Philadelphia Safety Net disagrees with this response. Under the contract and execution of both grants, the executive director duties were as follows: Project Manager, responsible for locations, logistics and follow-up of events. Public Relations Director, responsible for writing public service announcements, scheduling meetings with the press and developing contents for flyers and postcards. Grant manager, responsible for sending reports to the Department of Justice and following the process of executing the grants. Office Manager, processing the day-to-day operational functions for PSN including paying bills and managing two offices. Outreach Coordinator, responsible for scheduling Training for the Philadelphia Safety Net community outreach project in the Mt. Airy section of Philadelphia.

6. Remedy \$45,156 in questioned unallowable Costs, which represents the portion of the Executive Directors salary (\$37,444) and associated fringe benefits (\$7,712) paid with OJP grant funding which estimates was used for fundraising activities. (PSN response) disagrees with assessment and is not clear on how costs were determined.

7. Remedy the \$8,300 in questioned unallowable costs for gift card expenditures that did not result in gun collected by the Philadelphia Police Department. (PSN response) Philadelphia Safety Net disagrees with this recommendation has provided support for all purchases of gift cards and PSN still has cards in its possession (please note enclosed e-mail regarding additional gift cards).

8. Remedy \$28,000 in questioned unsupported costs for gift card expenditures that did not result in guns collected by the Philadelphia Police Department. (PSN response) Philadelphia Safety net disagrees with this recommendation and has provided support for all purchases of gift cards and PSN still has cards in its possession as stated in the supporting documents.

9. Remedy \$13,947 in questioned unsupported costs for utility expenditures which were not adequately documented in accordance with grant terms(PSN response) Philadelphia Safety Net concurs with this recommendation and is currently seeking the information and should have the information within three weeks.

10. Remedy \$34,003 in questionable unreasonable costs for rent and utilities on an underutilized building. (PSN response) Philadelphia Safety Net disagrees with this recommendation. The Philadelphia Senior Safety Center site was used for monthly training purposes, workshop delivery and as a staging area or events and projects. The planning of these activities occurred, on average, three days a week. Enclosed are materials and copies of workshop questionnaires.

11. Remedy \$53,915 in unallowable consultant expenditures. (PSN response) Philadelphia Safety Net disagrees with this recommendation. The consultant provided accounting services to PSN prior to any federal grant awards. The consultant provided advise on the formation of the organization and filed and was awarded the not for profit status from Internal Revenue Service (see enclosed information/e-mailed attachments).

The accounting system was established prior to any federal grant award. The organization is small and unable to achieve optimum segregation of duties. To meet this objective the accounting operations were maintained by the outside consultant.

The Accounting System and Financial Capability Questionnaire responses are based on the accounting system established for PSN. (See Attached- Schedule A)

The services provided:

1. Bookkeeping Services :
 - Check Disbursement
 - Daily/Monthly Recording of Transactions
2. Accounting Services
 - Daily/Monthly Review of Bank Transactions
 - Monthly Bank Reconciliations
 - Daily/Monthly Advice on use of Funds (See Example Attached- Schedule B)
 - Monthly Financial Statements
 - Monthly Budget to Actual Analysis (See Schedule Attached – Schedule C and D)
 - Communicating on behalf of PSN to all funding agency related to grants
 - Provide Financial Statements for the entity and program audit
 - Preparation of the Not For Profit Tax Return

The consultant's fee that was charged of 6% is considered a reasonable fee based on the services provided per outlined above.

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

DEC -9 2013

Washington, D.C. 20531

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

FROM:  Maureen A. Henneberg 
Director

SUBJECT: Response to the Draft Audit Report, *Audit of the Office of Justice Programs, Edward Byrne Memorial Justice Assistance Grants Awarded to Philadelphia Safety Net, Philadelphia, Pennsylvania*

This memorandum is in reference to your correspondence, dated November 8, 2013, transmitting the above-referenced draft audit report for Philadelphia Safety Net (PSN). We consider the subject report resolved and request written acceptance of this action from your office.

The draft report contains **11** recommendations and **\$480,306¹** in net questioned costs. The following is the Office of Justice Programs' (OJP) analysis of the draft audit report recommendations. For ease of review, the recommendations are restated in bold and are followed by our response.

1. **We recommend that OJP ensure that PSN establishes and adheres to internal control practices that: (a) prevent the appearance of impropriety by avoiding potential or apparent conflicts of interests on its Board of Directors, (b) provide oversight of the Executive Director by its Board of Directors, (c) maintain supporting documentation for all expenditures, (d) detect and prevent the use of grant funds for personal purposes in a timely manner, (e) ensure accountable property is properly safeguarded, (f) ensure payments to consultants conform with OJP requirements, (g) ensure requests for grant funding are based on immediate cash needs in order to avoid excess cash on hand, (h) avoid potentially wasteful spending using cost benefit analyses for significant expenditures, and (i) ensure timely reporting.**

OJP agrees with the recommendation. We will coordinate with PSN to obtain a copy of procedures implemented to ensure that PSN establishes and adheres to internal control practices that: (a) prevent the appearance of impropriety by avoiding potential or apparent conflicts of interests on its Board of Directors, (b) provide oversight of the

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

Executive Director by its Board of Directors, (c) maintain supporting documentation for all expenditures, (d) detect and prevent the use of grant funds for personal purposes in a timely manner, (e) ensure accountable property is properly safeguarded, (f) ensure payments to consultants conform with OJP requirements, (g) ensure requests for grant funding are based on immediate cash needs in order to avoid excess cash on hand, (h) avoid potentially wasteful spending using cost benefit analyses for significant expenditures, and (i) ensure timely reporting.

2. **We recommend that OJP ensure that PSN establishes and adheres to policies and procedures to ensure that: (a) the Executive Director's compensation is based on an analysis of his documented workload and performance, (b) the Executive Director is not paid in excess of his Board approved salary and fringe benefit levels, and (c) OJP grant funding is not used for the Executive Director's fundraising activities.**

OJP agrees with the recommendation. We will coordinate with PSN to obtain a copy of procedures implemented to ensure that: (a) the Executive Director's compensation is based on an analysis of his documented workload and performance, (b) the Executive Director is not paid in excess of his Board approved salary and fringe benefit levels, and (c) OJP grant funding is not used for the Executive Director's fundraising activities.

3. **We recommend that OJP remedy \$101,143 in questioned unallowable costs, which include the Executive Director's salary (\$81,942) and associated fringe benefits (\$19,201) paid with OJP grant funding, but were not approved by the PSN Board of Directors.**

OJP agrees with the recommendation. We will coordinate with PSN to remedy the \$101,143 in questioned payroll costs charged to grant numbers 2009-D1-BX-0272 and 2010-DD-BX-0471.

4. **We recommend that OJP remedy \$346,394 in questioned unreasonable costs, which include the Executive Director's salary (\$276,780) and associated fringe benefits (\$69,614) paid with OJP grant funding, but were neither approved by the PSN Board of Directors, nor based on the value of services rendered.**

OJP agrees with the recommendation. We will coordinate with PSN to remedy the \$346,394 in questioned costs charged to grant numbers 2009-D1-BX-0272 and 2010-DD-BX-0471.

5. **We recommend that OJP remedy \$346,394 in questioned unsupported costs, which include the Executive Director's salary (\$276,780) and associated fringe benefits (\$69,614) paid with OJP grant funding, but were neither approved by the PSN Board of Directors, nor adequately documented in accordance with the grant terms.**

OJP agrees with the recommendation. We will coordinate with PSN to remedy the \$346,394 in unsupported payroll costs charged to grant numbers 2009-D1-BX-0272 and 2010-DD-BX-0471.

6. **We recommend that OJP remedy \$45,156 in questioned unallowable costs, which represents the portion of the Executive Director's salary (\$37,444) and associated fringe benefits (\$7,712) paid with OJP grant funding which PSN estimates was used for fundraising activities.**

OJP agrees with the recommendation. We will coordinate with PSN to remedy the \$45,156 in questioned payroll costs charged to grant numbers 2009-D1-BX-0272 and 2010-DD-BX-0471.

7. **We recommend that OJP remedy \$8,300 in questioned unallowable costs for gift card expenditures that did not result in guns collected by the Philadelphia Police Department.**

OJP agrees with the recommendation. We will coordinate with PSN to remedy the \$8,300 in unallowable costs charged to grant number 2010-DD-BX-0471.

8. **We recommend that OJP remedy \$28,000 in questioned unsupported costs for gift card expenditures that did not result in guns collected by the Philadelphia Police Department.**

OJP agrees with the recommendation. We will coordinate with PSN to remedy the \$28,000 in unsupported costs charged to grant number 2010-DD-BX-0471.

9. **We recommend that OJP remedy \$13,947 in questioned unsupported costs for utility expenditures which were not adequately documented in accordance with grant terms.**

OJP agrees with the recommendation. We will coordinate with PSN to remedy the \$13,947 in unsupported utility costs charged to grant numbers 2009-D1-BX-0272 and 2010-DD-BX-0471.

10. **We recommend that OJP remedy \$34,003 in questioned unreasonable costs for rent and utilities on an underutilized building.**

OJP agrees with the recommendation. We will coordinate with PSN to remedy the \$34,003 in questioned rent costs charged to grant number 2010-DD-BX-0471.

11. **We recommend that OJP remedy \$53,915 in unallowable consultant expenditures.**

OJP agrees with the recommendation. We will coordinate with PSN to remedy the \$53,915 in questioned consulting costs charged to grant numbers 2009-D1-BX-0272 and 2010-DD-BX-0471.

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

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

Denise O'Donnell
Director
Bureau of Justice Assistance

Tracey Trautman
Deputy Director for Programs
Bureau of Justice Assistance

Eileen Garry
Deputy Director
Bureau of Justice Assistance

James Simonson
Budget Director
Bureau of Justice Assistance

Amanda LoCicero
Budget Analyst
Bureau of Justice Assistance

Gale Farquhar
Grant Program Specialist
Bureau of Justice Assistance

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

OJP Executive Secretariat
Control Number 2013-1798

**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 Philadelphia Safety Net (PSN) and the Office of Justice Programs (OJP) for review and comment. PSN's response is included as Appendix III, and OJP's response is included as Appendix IV of this final report. Because OJP agreed with all of our recommendations and discussed the specific actions that will be taken to address each of our findings, we consider all of the recommendations resolved. PSN did not agree with all of our recommendations, therefore we address PSN's position in our analysis of each recommendation below. The following provides the OIG analysis of the responses and summary of actions necessary to close the report.

Recommendation Number

- 1. Resolved.** OJP agreed with our recommendation to ensure that PSN establishes and adheres to internal control practices that: (a) prevent the appearance of impropriety by avoiding potential or apparent conflicts of interests on its Board of Directors, (b) provide oversight of the Executive Director by its Board of Directors, (c) maintain supporting documentation for all expenditures, (d) detect and prevent the use of grant funds for personal purposes in a timely manner, (e) ensure accountable property is properly safeguarded, (f) ensure payments to consultants conform with OJP requirements, (g) ensure requests for grant funding are based on immediate cash needs in order to avoid excess cash on hand, (h) avoid potentially wasteful spending using cost benefit analyses for significant expenditures, and (i) ensure timely reporting.

In its response, PSN concurred with all of the sub-parts of the recommendation with the exception of 1(f), which recommends that OJP ensure payments to consultants comply with OJP requirements. PSN stated that "(t)he accounting professionals were 'consultants' of Philadelphia Safety Net before PSN received the DOJ grants. The consultant activity was then extended throughout the life of the federal grants." Although PSN is correct that its consultants were hired under contract before these grants were awarded, PSN is still required to ensure any payments made with grant funding comply with OJP requirements. Because PSN did not adhere to OJP competition requirements for its grant payments to consultants, we maintain our recommendation.

This recommendation can be closed when we receive documentation demonstrating that PSN has implemented procedures to enhance internal control practices in those specific areas noted in our report for this recommendation.

- 2. Resolved.** OJP agreed with our recommendation that PSN establishes and adheres to policies and procedures to ensure that: (a) the Executive Director's compensation is based on an analysis of his documented workload and performance, (b) the Executive Director is not paid in excess of his Board approved salary and fringe benefit levels, and (c) OJP grant funding is not used for the Executive Director's fundraising activities.

In its response, PSN concurred with 2(c) but disagreed with 2(a) and 2(b). With regard to 2(a), PSN responded that the Executive Director's salary was commensurate to that of an executive with similar experience and responsibility in the corporate world. As described in the audit report, the Executive Director's activities were not well documented and there was no oversight of his performance. As a result, we could not determine the Executive Director's workload or performance.

With regard to 2(b), PSN responded that "... although there was not written approval, the Executive Director justified the increase in part because of the understanding the budget could be changed, as long as the change did not exceed 10% of the budget (The OJP rules stipulate that the grantee did not need "approval" to change the budget as long as the budget did not exceed 10% of the budget. It was the understanding of the Executive Director that changes also included salary)." The PSN response refers to OJP requirements for managing grant budget categories, which states "Movement of dollars between approved budget categories without a [Grant Adjustment Notice] is allowable up to ten percent of the total award amount (the ten percent rule), provided there is no change in project scope." However, compliance with grant budget category rules does not allow for the Executive Director to adjust his own compensation without approval from the PSN Board of Directors.

This recommendation can be closed when we receive documentation demonstrating that PSN has implemented policies and procedures to enhance internal control practices in those specific areas noted in our report for this recommendation.

- 3. Resolved.** OJP agreed with our recommendation that it remedy \$101,143 in questioned unallowable costs, including the Executive Director's salary (\$81,942) and associated fringe benefits (\$19,201) paid

with OJP grant funding that were not approved by the PSN Board of Directors.

In PSN's response disagreeing with this recommendation, PSN said that "Under the contract and execution of both grants, the executive director duties were as follows: (1) Project Manager, responsible for locations, logistics and follow-up of events, (2) Public Relations Director, responsible for writing public service announcements, scheduling meetings with the press and developing contents for flyers and postcards, (3) Grant Manager, responsible for sending reports to the Department of Justice and following the process of executing the grants, (4) Office Manager, processing the day-to-day operational functions for PSN including paying bills and managing two offices, and (5) Outreach Coordinator, responsible for scheduling Training for the Philadelphia Safety Net community outreach project in the Mt. Airy section of Philadelphia."

While PSN's response provided the Executive Director's duties, it did not address the issue that the Executive Director increased his compensation above the level approved by PSN's Board of Directors. The unallowable costs here reflect the amount over and above the approved compensation for the Executive Director.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$101,143 in unallowable costs.

4. **Resolved.** OJP agreed with our recommendation to remedy \$346,394 in questioned unreasonable costs, which include the Executive Director's salary (\$276,780) and associated fringe benefits (\$69,614) paid with OJP grant funding, but were neither approved by the PSN Board of Directors, nor based on the value of services rendered.

In PSN's response disagreeing with this recommendation, PSN provided the same abbreviated job description for the Executive Director that it provided for recommendation number 3. This response fails to demonstrate the Executive Director's compensation paid using grant funding totaling \$346,394 was reasonable when compared to the Executive Director's activities as described in the audit report.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$346,394 in unreasonable costs.

5. **Resolved.** OJP agreed with our recommendation to remedy \$346,394 in questioned unsupported costs, which include the Executive Director's

salary (\$276,780) and associated fringe benefits (\$69,614) paid with OJP grant funding, but were neither approved by the PSN Board of Directors, nor adequately documented in accordance with the grant terms.

In PSN's response disagreeing with this recommendation, PSN provided the same abbreviated job description for the Executive Director that it provided for recommendations number 3 and 4. This response fails to support the payments made to the Executive Director.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$346,394 in unsupported costs.

- 6. Resolved.** OJP agreed with our recommendation to remedy \$45,156 in questioned unallowable costs, which represents the portion of the Executive Director's salary (\$37,444) and associated fringe benefits (\$7,712) paid with OJP grant funding which PSN estimates was used for fundraising activities.

In its response, PSN disagreed with this the recommendation but did not provide a rational for its disagreement. However, PSN suggested that the audit report did not clearly establish how questioned costs were determined. We reviewed the draft report and determined that the description clearly identifies the calculation of total compensation related to fundraising activities as representing 10 percent of total salary and fringe benefits paid from all funding sources.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$45,156 in unallowable costs.

- 7. Resolved.** OJP agreed with our recommendation to remedy the \$8,300 in questioned unallowable costs for gift card expenditures that did not result in guns collected by the Philadelphia Police Department.

In its response, PSN disagreed with this recommendation stating that it still maintained gift cards in its possession although the grant has been closed out. PSN also provided a copy of an e-mail sent to OJP in September 2012 proposing to give the remaining 83 \$100 gift cards it still held to groups or organizations yet to be identified. We have not been provided an update as to whether PSN received a response from OJP regarding the remaining gift cards. As these cards are still outstanding and were not utilized to meet grant-funded objectives, we maintain the \$8,300 as unallowable costs.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$8,300 in unallowable costs.

- 8. Resolved.** OJP agreed with our recommendation to remedy \$28,000 in questioned unsupported costs for gift card expenditures that did not result in guns collected by the Philadelphia Police Department.

In its response, PSN disagreed with this recommendation and said that it provided support for all purchases of gift cards and PSN still has cards in its possession. We agree with PSN's response that it has provided support for the purchase of gift cards, including those still in its possession. However, this response fails to justify using \$28,000 to purchase gift cards that did not result in guns collected for the program and the disposition of those cards.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$28,000 in unsupported costs.

- 9. Resolved.** OJP agreed with our recommendation to remedy \$13,947 in questioned unsupported costs for utility expenditures which were not adequately documented in accordance with grant terms.

In its response, PSN agreed with this recommendation and said that it is seeking the missing documentation for the utility expenditures paid for with grant funds.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied \$13,947 in unsupported costs.

- 10. Resolved.** OJP agreed with our recommendation to remedy \$34,003 in questioned unreasonable costs for rent and utilities on an underutilized building.

In its response disagreeing with this recommendation, PSN said that "(t)he Philadelphia Senior Safety Center site was used for monthly training purposes, workshop delivery and as a staging area or events and projects. The planning of these activities occurred, on average, three days a week." PSN also provided materials and copies of workshop questionnaires.

We reviewed the materials submitted by PSN with its response and determined these did not support PSN's claims that the site was used on average, three days a week. The materials, including attendance logs,

demonstrate the site was used on 3 separate occasions at which a total of 25 persons participated.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied \$34,003 in unreasonable costs.

11. Resolved. OJP agreed with our recommendation to remedy \$52,792 in unallowable consultant expenditures.²¹

In its response, PSN disagreed with our recommendation and stated that the consultant's fee, charged at six percent of the award budget, was considered a reasonable fee based on the services provided. In addition, PSN said that the consultant was necessary because "the organization is small and unable to achieve optimum segregation of duties".

PSN's response did not provide support for its assertion that the consultant's fee of six percent should be considered reasonable. Additionally, while we agree that it is a challenge for smaller organizations to establish effective controls that include segregation of duties, our report details that the Executive Director either ignored or overrode the controls provided by the consultant. Examples included the use of organization funding for personal use, salary increases without Board approval, and the failure to provide the consultant with utility bills and related documentation to support payments made with grant funds.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied \$52,792 in unallowable expenditures.

²¹ The draft audit report provided to OJP and PSN incorrectly identified the amount of questioned costs related to Recommendation 11 as totaling \$53,915. This final report has been revised to identify the correct amount of \$52,792.