DAMASCUS HOUSE COMMUNITY DEVELOPMENT CORPORATION

GRANT AUDIT
MAY 2023

OFFICE OF AUDITS AND INVESTIGATIONS
Prince George's County
Largo, Maryland

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THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

May 2023

The County Council and County Executive
of Prince George's County, Maryland

Council Resolution 51-1991, adopted June 25, 1991, requires the Office of Audits and Investigations (A&I) to perform random financial audits of grants and transfer payments appropriated in the Non-Departmental section of the County's Approved Annual Current Expense Budget.

We have examined the books and records of

DAMASCUS HOUSE COMMUNITY DEVELOPMENT CORPORATION

for the period July 1, 2020, through June 30, 2022. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances.

We did not receive sufficient documentation to support the organization's expenditures in order to obtain reasonable assurance that the County grant funds awarded to the organization were properly supported and utilized for their intended purpose. Based upon the extent of the findings outlined in this report, we recommend the discontinuance of County grant funding to Damascus House Community Development Corporation until the deficiencies noted are rectified.

This report, in our opinion, fulfills the requirements of Council Resolution 51-1991 to perform random financial audits of grants and transfer payments made pursuant to the Non-Departmental section of the Prince George's County, Maryland, Fiscal Year 2021 and 2022 Approved Operating Budget.

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Executive Summary

Damascus House Community Development Corporation received a total of $89,810 of grant funds from the Prince George's County Government (the County) between July 1, 2020, and June 30, 2022. During our audit, we noted several matters involving the grant funding provided to Damascus House Community Development Corporation that are cause for concern. Based upon the extent of the findings outlined in this report, we recommend the discontinuance of County grant funding to Damascus House Community Development Corporation at this time. A summary of these issues is provided below, and further details can be found in the following report.

- DHCDC Board of Directors did not provide adequate board oversight with respect to having an adequate number of board members and conducting an adequate number of board meetings.
- DHCDC did not adhere to its bylaws regarding the avoidance of conflicts of interest and the lack of independence in relation to financial matters of the organization.
- DHCDC did not comply with Local, State, and Federal government regulations as follows:
  - Did not obtain the appropriate Use and Occupancy permit for one of its transitional housing units.
  - Registration with the Maryland Solicitations Act was not current.
  - Appropriate tax forms were not filed (i.e., Form 990 for 2020, 1099-MISC, and 1099-NEC tax forms).
- DHCDC did not have segregation of duties regarding the handling of cash receipts and disbursements for the organization.
- DHCDC does not have adequate financial management controls in place to accurately account for its grant-related financial activity.
- DHCDC did not maintain adequate documentation for most of the transactions selected for testing.
- DHCDC does not have written policies and procedures that clearly define the accounting process and responsibility for all accounting functions within the organization.
- DHCDC had not submitted periodic progress reports to the County Council Grants Office.

Overall Audit Rating	Total County Grant Funding*
	$ 89,810

No Significant Findings Noted – Opportunities for Improvement Identified
Some Deficiencies Noted – Eligible for Funding
Significant Deficiencies Noted – Ineligible for Funding

Damascus House Community Development Corporation

Damascus House Foundation Inc is a 501(c)(3) nonprofit organization incorporated in September of 2015. In September 2020, the Corporation changed its name to Damascus House Community Development Corporation (DHCDC) and registered as a Charitable organization in the State of Maryland in 2021.

Damascus House Community Development Corporation (DHCDC) reported that it offers wide-ranging reentry services for returning citizens through its RISTORe (**R**ehabilitating **I**ndividuals **S**o **T**hey **O**vercome **R**ecidivism) program, including:

- Transitional and supportive housing,
- Case management,
- Group and individual substance abuse and mental health counseling,
- Psychoeducational groups,
- Financial literacy, and
- Workforce development.

DHCDC operates four (4) single-sex transitional housing units – three (3) located in Prince George's County and one (1) in Washington, DC. Three (3) of the houses are for men and one (1) for women. The organization reports that the transitional housing units are currently capable of housing 27 individuals. The four (4) transitional housing units operated by DHCDC are located as follows:

- Miriam's House - Temple Hills, MD
- John's House - Suitland, MD
- Paul's House - Suitland, MD
- Redeemer's House - Washington, DC

Damascus House Community Development Corporation is governed by a Board of Directors that consists of four (4) voting members who serve without compensation. The Executive Director is also on the Board. However, the organization reported that he is not a voting member. Per the organization's by-laws, the Board is responsible for managing the affairs of the organization and should have the powers and duties necessary and appropriate for the administration of the affairs of the organization. The Board of Directors, as reported by DHCDC, are as follows:

- Kevin Williams, Executive Director (non-voting member)
- Aaran Williams, President (Sister of Executive Director)
- Kimberly Clark, Secretary (Wife of Executive Director)
- Patricia Alford, Treasurer
- Melanie Clark, Board member (Sister of Secretary)

The Prince George's County Council appropriates funds to support nonprofit organizations throughout the County in the form of grants. The Non-Departmental budget included funds to fulfill grant requests received from County nonprofit organizations. Non-Departmental grant funds are to be used to support citizen/community-based programs and services that help address the human, social, education, recreation, and other service needs of the County's citizens and communities. The Special Appropriation Grants are dispersed by individual Council Members to help support nonprofit organizations providing programs and services to Prince George's County citizens and communities. County Council grants are awarded through a formal application process.

The Community Partnership Grant (CPG) is a grant initiative offered by the Office of the County Executive to qualified nonprofit organizations based upon a set of criteria, including the value added to the identified community, overall program costs, organizational stability, and adequacy of other funding sources. Community Partnership grants are awarded through a formal application process.

The Strategic Partnership COVID Relief Fund (CRF) Grants were awarded to assist 501(c)(3) or 501(c)(4) nonprofit organizations in the County that were adversely affected by the COVID-19 pandemic and/or other circumstances. These grants are awarded through a formal application process.

The Prince George's County Government, by way of the Prince George's County Council and the County Executive, awarded Damascus House Community Development Corporation five (5) grants totaling $89,810 in fiscal years 2021 and 2022. A summary of the grants awarded is shown in **Exhibit 2** below. The grant monies awarded to DHCDC were to be used to support the organization's transitional housing units and provide counseling services to returning citizens, as noted in **Exhibit 2** below.

Disbursement Date	Grant Type	Grant Award Amount	Grant Purpose
5/10/2021	CPG	$40,000	covering the costs associated with sheltering and counseling returning citizens
6/24/2021	SAG- D5	$2,000	covering the costs associated with sheltering and counseling returning citizens
6/30/2021	SAG- D7	$2,810	covering the costs associated with sheltering and counseling returning citizens
9/29/2021	CRF	$10,000	1 (one) year of lease/ rental fees on three (3) transitional homes, participant workforce development training and for part-time peer specialist staffing
10/13/2021	Non-D	$35,000	rent , insurance, water, gas and security system
Total Amount Awarded		**$89,810**	

(Exhibit 2)

DHCDC reported that it also receives corporate, civic, and individual contributions, as well as donations. County grants accounted for 39% of the organization's revenue in FY 2021 and FY 2022.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of our audit were to: (a) assess the adequacy of the system of internal and management controls over grant funds received and expended; (b) assess whether grant-related transactions occurred in a manner consistent with the Damascus House Community Development Corporation's grant request applications and other generally accepted business practices; and (c) identify factors inhibiting satisfactory performance in these areas and make recommendations to protect the County's interest concerning the grant funds.

The scope included all transactions related to the receipt and disbursement of the total grant funds received from July 2021 through June 2022 (a total of $89,810).

The criteria used to evaluate the audit evidence gathered included:

- The grant applications submitted by DHCDC;
- The United States General Accountability Office Standards for Internal Control publication (GAO-14-704G);
- Maryland Nonprofit's Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector; and
- Internal Revenue Code (IRC)/Internal Revenue Service (IRS) guidelines.

The audit included interviews with key personnel of Damascus House Community Development Corporation and detailed tests, including:

- An examination of the organization's monthly bank statements;
- A review of the organization's Federal Form 990 return for 2020 and 2021;
- A review of available cash receipts and disbursements documentation; and
- A review of available minutes for meetings held by the Board of Directors.

Damascus House Community Development Corporation operates and reports on a calendar year. However, our examination was conducted on a fiscal year basis. The attached Statement of Activities (**Schedule 1**) shows the financial activities of the organization for the periods ending June 30, 2021, and June 30, 2022.

We examined the books and records maintained by Damascus House Community Development Corporation and performed tests of the accounting records and other auditing procedures, as deemed necessary. The examination included a review of expenditures and supporting documentation to ensure that payment amounts were properly approved and corresponded to related invoices. Although some documentation was provided by DHCDC. A&I did not receive sufficient documentation to support the organization's expenditures in order to obtain reasonable assurance that the County grant funds awarded to the organization were properly supported and utilized for their intended purpose. The deficiencies noted during our audit are discussed in further detail below.

FINDINGS, COMMENTS, AND RECOMMENDATIONS

INTERNAL CONTROLS AND THE CONTROL ENVIRONMENT

An organization's control environment should establish the overall tone, awareness, and actions of the board of directors, management, and staff concerning the importance of internal controls and its role in the organization. In an organization with a good internal control environment, responsibilities are clearly defined, and authority is assigned to specific individuals to permit identification of whether persons are acting within the scope of their authority.

Auditing standards define internal controls as a process designed to provide reasonable assurance that entity objectives will be achieved, including the objectives of reliable financial reporting, compliance with applicable laws, and the effectiveness and efficiency of the organization's service delivery processes. The primary function of internal controls is to provide assurance that errors and irregularities may be discovered with reasonable promptness.

According to the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector ("Standards for Excellence")*, nonprofits should have sound financial and operational systems in place and should ensure that accurate records are kept. The organization's financial and non-financial resources must be used in furtherance of tax-exempt purposes. Organizations should conduct periodic reviews to address the accuracy and transparency of financial and operational reports and safeguards to protect the integrity of the reporting systems.

FINDING 1: Inadequate Board Oversight

DHCDC is a small organization with its daily operational and financial decisions made by the Executive Director and the Secretary of the Board (his wife). The organization does not have an active, impartial, and full complement of independent Board Members to ensure that organizational and financial decisions are made with adequate oversight and approval. A review of board meeting agendas, the organization's bylaws, and discussions with members of the Board also revealed the following areas of concern:

- **The organization conducted an insufficient number of board meetings**. DHCDC provided agendas in lieu of the required Board meeting minutes for our review. During a review of the board meeting agendas, we noted that the board conducted three (3) meetings during fiscal years 2021 and 2022. Furthermore, discussions with several Board Members revealed inconsistencies when asked how often the Board meets and the items the Board addresses during the meetings.

- **Board meetings were not appropriately documented through approved minutes**. A&I requested minutes for all board meetings held during the audit period. In response to this request, three (3) agendas were provided for our review. However, it should be noted that agendas are not the same as meeting minutes, as they are not approved and do not represent the items discussed and Board actions taken in the meeting.

The Standards for Excellence recommends that, at a minimum, the board should meet four (4) times a year. Accurate minutes reflecting board and committee actions should be kept and distributed to all board members. Furthermore, the Standards for Excellence state that Board meetings should be structured around decision-making as well as board and committee actions.

Additionally, according to the organization's bylaws, the Board will hold a minimum of one regular meeting per month, and the "Secretary shall keep accurate records and minutes of all meetings of the Corporation, and make available minutes of the previous meeting and distribute them in advance of each meeting."

The Board of Directors has the fundamental responsibility to provide oversight and accountability for the organization. Nonprofits that lack good governance principles may be at risk of poor management, the wastefulness of resources, and public mistrust.

Note 1: Subsequent to drafting this report and in response to the audit findings discussed with the organization, the Executive Director provided meeting minutes for one (1) Board meeting conducted on April 17, 2021.

Note 2: Additionally, the Executive Director reported that the organization expanded its Board to include five (5) non-related members. However, A&I was not able to confirm the information provided by the organization after the drafting of this report.

FINDING 2: Potential Conflict of Interest and Lack of Independence

During the review of DHCDC's organizational structure and interviews with key personnel regarding their duties and responsibilities, we determined that a potential conflict of interest may exist in the following instances:

- The Executive Director and President are siblings
- The Executive Director and the Secretary are spouses, and
- The Secretary and a Board member are siblings.

It should be noted that while related parties serving on the Board is not illegal, it is in the best interest of the organization to avoid or minimize these instances to avoid conflict of interest or the appearance of impropriety.

Additionally, A&I reviewed the check register for the period July 1, 2020 through June 30, 2022, and noted the organization had several deposit and expenditure transactions from/to Game to Glory Ministries, LLC, the for-profit organization owned by the Executive Director. The organization reported that Game to Glory Ministries, LLC provides workforce development program services on behalf of the organization. We noted three (3) payments totaling $2,650 were paid to Game to Glory during the audit period, including two payments in our sample. Note that G2G is denoted in the nonprofit's documentation to represent Game to Glory. See related Finding #4.

The Standards for Excellence state that "the board should have no fewer than five (5) independent and unrelated directors." Unrelated Board Members can provide the organization with another layer of protection against fraud, waste, and misuse of an organization's resources.

The Standards for Excellence also states in part that a conflict-of-interest policy "should be applicable to board members and staff, as well as volunteers who have significant, independent decision-making authority regarding the resources of the organization."

Additionally, we noted that the organization's by-laws state "Employees and family members of employees of the Corporation shall not be eligible to serve on the Board of Directors." It is recommended that the board be set up with individuals who are independent of the organization to avoid the appearance of impropriety.

Note 2: As previously noted, the Executive Director reported that the organization expanded its Board to include five (5) non-related members. However, A&I was not able to confirm the information provided by the organization after the drafting of this report.

FINDING 3: Lack of Compliance with Local, State, and Federal Regulations

Noncompliance with County Regulations

DHCDC operates three (3) transitional housing units in Prince George's County. For each transitional housing unit, A&I obtained and reviewed the Use and Occupancy (U&O) certificate issued by the Department of Permitting, Inspections, and Enforcement (DPIE). We noted that the U&O for one of the housing units, Miriam's House in Temple Hills, states that the property will be used for "before and after-school programs."

Properties must have the appropriate U&O permit to legally operate in the County as the U&O officially states that the business identified meets local zoning and safety requirements and health codes. Per the DPIE's permitting website, *"County laws dictate that if ownership changes or a tenant vacates the property, the new owner/tenant must obtain a new Use and Occupancy Permit (U&O)."*

Noncompliance with State Regulations

The Maryland Solicitations Act requires that a charitable organization soliciting in Maryland file documents with the Office of the Secretary of State. Registration is required prior to the commencement of solicitations. To remain in compliance, a charitable organization must renew its registration annually. As of April 2023, we found that DHCDC's registration with the Office of the Secretary of State was not current since it did not submit the information needed to maintain its annual registration. We also noted that the organization had not filed an extension request.

Noncompliance with Federal Regulations

A&I requested a form 1099-MISC or 1099-NEC for all individuals that were paid $600 or more during calendar years 2020 and 2021, along with confirmation that the forms were submitted to the IRS. We were provided with two (2) completed 1099 forms from 2021, in the amounts of $11,006 and $30,879, for contractors that the organization utilized during the requested period.

However, discrepancies were noted when comparing payments made in 2021, per the bank statements, to the total payment amounts recorded on the 1099 forms. Additionally, DHCDC did not provide documentation to support that the 1099 forms were filed with the IRS.

We also reviewed the organization's bank statements for the period July 1, 2020, through June 30, 2022, and found payments that appeared to be made to individuals for services rendered, totaling $600 or more. Due to a lack of documentation to support expenditure transactions (see related *Finding #6*), A&I was unable to determine the nature of these payments. A summary of the payments over $600 made to individuals, including the Executive Director, is provided below:

Individual	CY 2020[A]	CY 2021	CY 2022[A]
Anthony Proctor[B]	$6,760	$9,500	$0
Jermayne Sturge	800	0	0
Benjamin Francis	0	700	700
Deborah Stewart	0	**	2,650
Katina Burks[B]	0	21,800	26,063
Kevin Williams	0	8,000	0
Kimberly Clark	0	938	0
Monica Biscoe Brooks	0	750	0
Ryan Holland	0	3,564	**
Vincent Porter[C]	0	9,550	12,900
Yvonne Wright[C]	9,000	13,500	3,000
Total	**$16,560**	**$68,302**	**$45,313**

****Payments made did not exceed $600 for the period reviewed.**

NOTES:

[A] **The 2020 figures are for July 2020 – December 2020 and the 2022 figures are for the period January 1 – June 30.**
[B] **Form 1099 was issued; however, we noted discrepancies between the 1099s and total payments made per the organization's bank records.**
[C] **Payments made to individuals were for rental expenses for the transitional housing units.**

According to the IRS, a Form 1099-MISC or 1099-NEC must be filed for any individual that was paid at least $600 for rent or for services performed for a trade or business by people who are not your employees. The IRS considers nonprofit organizations to be engaged in a trade or business and subject to these reporting requirements.

A&I also conducted a search of the IRS website to identify the organization's most recent Form 990 available to the public and noted that the last tax return filed was for 2019. The accountant reported that Form 990 was filed for the 2020 tax year. However, A&I did not receive documentation that the 990 was filed or received by the IRS for the 2020 tax year. The organization was able to provide documentation to support the filing of tax Form 990 for 2021.

The Internal Revenue Service requires that most charitable organizations file an annual information return, Form 990. Annual returns are due on the 15th day of the 5th month after the end of the organization's fiscal year, or an application for extension must be filed. Failure to comply with IRS regulations may result in the assessment of penalties/fees and/ or withdrawal of tax exemption status.

Note 3: Subsequent to drafting this report and in response to the audit findings discussed with the organization, the Executive Director provided documentation of its Maryland Certification of Recovery Residences (MCORR) Provider Certification in lieu of the U&O permit. A&I advised the organization to follow up with the Department of Permitting, Inspections, and Enforcement (DPIE) to obtain the appropriate U&O or documentation that a county-issued U&O is not required to operate the transitional housing unit.

FINDING 4: Lack of Segregation of Duties

A&I noted that there was no segregation of duties regarding the handling of cash receipts and disbursements for DHCDC. According to the organization's Accountant, the Executive Director is the only individual with authority to perform banking transactions in the organization's online account. It also appears that the Executive Director makes sole financial decisions on behalf of the organization, only informally consulting with the Secretary and/or President (related members) of the Board. The Executive Director maintains all accounting and bank records, with little oversight from Board.

Although the Executive Director is one (1) of three (3) officers with check signing authority, we noted that he was the primary check signer for checks written on behalf of the organization. During the audit, we selected a sample of 17 checks totaling $19,862 written during the review period and noted that the President signed one (1) check ($750 or 4%), the Secretary signed two (2) checks ($1,074 or 5%), and the Executive Director signed the remaining fourteen checks ($18,038 or 91%), including three (3) checks written to himself.

Out of the 14 checks in the sample signed by the Executive Director, we noted the following:

- Three (3) checks were written to himself for compensation as the Executive Director - $8,000 or 44%
- Two (2) checks were written to Cash - $1,750 or 10%.
- Two (2) checks were made payable to Kimberly Clark, his wife, and the Secretary of the Board - $938 or 5%
- One (1) check was written to the Executive Director's for-profit business, Game 2 Glory - $1,000 or 6%. (*See related Finding #2.*)
- The remaining six (6) checks appeared to be normal business transactions.

Check details are provided in the table on the following page.

DATE	CHECK NUMBER	PAYEE	AMOUNT	REASON PER MEMO LINE
11-Jan-21	127	Kevin G Williams	$3,000.00	Director draw
8-Mar-21	137	Cash	$250.00	Program manager (petty cash)
21-Oct-21	179	Game to Glory*	$1,000.00	Workforce Development (Workforce Development support)
5-Nov-21	183	Kevin G Williams	$3,500.00	Director Pay
26-Nov-21	182	Kimberly Clark	$600.00	Reimbursement 10/28 Computer purchase Gregory Joseph
23-Dec-21	184	Kevin G Williams	$1,500.00	Program Director
23-Dec-21	185	Kimberly Clark	$338.00	Gift Target Men RISTORe (reimbursement)
20-Jan-22	190	Cash	$1,500.00	G2G* Workforce Development
Various	Various	Various	$6,350.00	Various
		TOTAL	**$ 18,038.00**	

GAO Standards for Internal Controls states that the management of an organization should divide or segregate "key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event."

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

It is important to note that if segregation of duties is not practical within an operational process due to limited personnel, management controls must be implemented to address the risk of fraud, waste, or abuse.

FINDING 5: Inadequate Financial Management

Organizational Budget

A&I met with the Accountant, Treasurer, and Executive Director to obtain an understanding of the organization's accounting practices. Through discussions with the Accountant and a Board Member, we learned that DHCDC did not have a "formal budget." However, we noted that a budget had been submitted with the organization's application for grant funds.

The Standards for Excellence state that the "board should annually approve the organization's budget and the organization should be operated in accordance with this budget." The organization should periodically assess the organization's financial performance in relation to the budget and create and maintain reports on a timely basis that accurately reflect the financial activity of the organization. Furthermore, internal financial statements should be prepared at least quarterly, be provided to the board of directors, and identify and explain any material variation between actual and budgeted revenues and expenses.

Reconciliations

Although the Accountant's contract states that bank reconciliations are performed for the checking account, in response to our initial audit request, no bank reconciliations were provided for our review. As a result, A&I performed alternative audit procedures to determine the accuracy of the organization's cash balances reported in its financial statements. A&I obtained and reviewed bank statements and accounting records for ten months in the audit period and noted variances totaling -$63,540 for the period tested, with differences ranging from $347 to -$27,038.

The Standards for Excellence state that nonprofits "should have sound financial and operational systems in place and should ensure that accurate records are kept." Organizations "should conduct periodic reviews to address accuracy and transparency of financial and operational reporting, and safeguards to protect the integrity of the reporting systems."

Furthermore, GAO states that transactions should be "promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records." GAO also states that management should design control activities so that all transactions are completely and accurately recorded.

Note 4: Subsequent to the drafting of this report and in response to the audit findings discussed with the organization, CY 2021 bank reconciliations were provided to A&I. Of the ten months initially selected for testing, the organization only provided four (4) monthly reconciliations. A&I noted that the four (4) reconciliations provided were not completed in a timely manner. All four (4) were completed at least five (5) months and as much as 10 months <u>after</u> the end of the reporting period. We also noted that some of the 2021 reconciliations were performed after A&I requested the reconciliations for the audit.

Note 5: The Executive Director reported that, due to unforeseen circumstances with the organization's previous accountant, the bank reconciliations for CY 2020 could not be obtained by the organization and thus were not available for A&I's review.

FINDING 6: Lack of Documentation to Support Grant Expenditures

To determine whether DHCDC grant expenses were adequately supported with appropriate documentation (e.g., invoice, receipts, contract/agreement, etc.) and aligned with its mission, a sample of 72 transactions totaling $52,257 was selected for review by A&I from the organization's bank statements dated July 1, 2020, through June 30, 2022. While the organization was able to provide an explanation (as noted on check copies) for many of the transactions, DHCDC was not able to provide supporting documentation for 68 of the transactions selected for testing. (Four of the transactions selected for testing were identified as rent payments and were supported by the corresponding rental agreements.) A summary of the unsupported transactions in our sample is illustrated in the table on the following page.

CATEGORY	AMOUNT	%
Miscellaneous	$13,411	29%
Program Expenses	11,952	26%
Job Supplies	6,666	14%
Office Supplies	6,414	14%
Insurance	4,477	10%
Utilities	3,089	7%
TOTAL	**$46,009**	

Due to the lack of supporting documentation and unreliable accounting records, we could not determine if each expense was consistent with the organization's mission/ purpose for 61 of the 72 transactions, or 85%. Eleven of the transactions were identified through a description on the memo line of the check and included the property address of the transitional housing units. However, no invoices, receipts, or contracts were presented as documentation to support these expenditures.

In the publication on standards for internal controls (GAO-14-704G) (09/14), the Government Accountability Office (GAO) states the following regarding the appropriate documentation of transactions and internal control activities:

> *"Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals in either paper or electronic form. Documentation and records are properly managed and maintained.*

Additionally, DHCDC is required to maintain documentation to support all grant expenditures as a condition of the grant award. Failure to maintain adequate documentation to support grant transactions prevents an effective detailed review of these transactions, either from management when the transaction was initiated or during a subsequent audit, ensuring that they were reasonable, accurate, and aligned with the organization's mission/purpose. Additionally, without corresponding expense receipts, purchases made by DHCDC's representatives could be considered personal use and thereby subject to income tax by the IRS.

FINDING 7: Lack of Written Policies and Procedures

DHCDC does not have written policies and procedures that clearly define the accounting process and responsibility for all accounting functions within the organization. In response to our request for financial policies and procedures, A&I was provided the DHCDC Operations Manual, which did not address any accounting or financial operations.

The Standards for Excellence states, in part, a nonprofit should have written financial policies that are adequate for the size and complexity of the organization. These policies should address investment of the assets of the organization, internal controls, procurement, and unrestricted current net assets.

A lack of written policies and procedures can result in improper practices, inconsistent approaches based on the personal preference of staff, and a lack of accountability, which can lead to organizational inconsistencies and inefficiencies.

FINDING 8: Not in Compliance with Grant Reporting Requirements

A&I determined that the organization was not in compliance with grant reporting requirements and had not submitted progress reports to the County Council Grants Office. Progress reports to the Grantor would have included the following information and/or documentation:

- Financial Statement
- Number of individuals served or benefitted from services provided
- Progress made toward achieving results as described in the proposal
- Greatest strength of DHCDC work
- Greatest concern (other than financial)
- Any changes in the organization

As an assurance requirement, within the grant application, a disclosure is included stating that depending on the amount awarded, a periodic progress report is due annually, semi-annually, or quarterly.

For the grants included in the scope of our review, the organization was required to submit an annual report due June 1st, 2022, and July 1st, 2022, and semi-annual reports due April 1st, 2022, and October 1st, 2022.

When an organization fails to submit required programmatic reports, the County Government may not have a clear understanding of how grant funds were used, whether services funded by the County were provided, and if program goals are being met.

RECOMMENDATIONS

Based upon the extent of the findings outlined in this report, **we recommend that the County discontinue awarding Damascus House Community Development Corporation grant funding at this time.** If grant funds are to be awarded to Damascus House Community Development Corporation in the future, the following recommendations should be implemented:

1. DHCDC should evaluate and strengthen its Board of Directors to ensure the Board can provide the appropriate oversight of the organization, including:

   a. Increasing the number of board members, excluding any related directors as recommended by the Standards of Excellence to ensure equal representation of the organization's interest.

b. Ensuring that employees sitting on the board are not in a position to exercise undue influence. Board members must remain independent of the financial processes used to run the day-to-day business of the organization and provide the required independent oversight.

c. Ensuring the Board meets regularly, documenting all Board meetings in the form of minutes, and ensuring a quorum of voting members is present when making major decisions for the organization. The minutes stand as the official record of the Board's actions and should be approved by the Board in a timely manner.

d. Ensuring the Board approves the organization's budget annually and ensuring that the organization operates in accordance with the approved budget.

2. DHCDC should ensure that it is in full compliance with all local, State, and Federal laws that apply to the organization.

3. DHCDC should take the necessary steps to ensure that a sound accounting and internal control system is in place to properly account for future funding that it may receive. A strong internal control system includes:

a. **Segregating key financial duties,** including authorization, custody, record keeping, and reconciliation. It is ideal to arrange the workload so that no one person handles more than one type of function.

b. **Establishing Written Policies** – Nonprofit organizations should have written financial policies that address internal controls. Policies and procedures should be communicated to all applicable personnel.

c. **Maintaining appropriate documentation** to support revenue and expenditure transactions, including but not limited to bank statements, check copies, check registers, signed memoranda of understanding (MOUs), signed employment agreements, signed contract agreements, receipts for travel and entertainment expenses, detail information regarding individual and corporate donor payments and other funds received. Documentation should be maintained for a period of at least three years after the tax return is filed, in accordance with IRS guidelines.

d. **Financial Reporting** – A nonprofit organization should create and maintain reports on a timely basis that accurately reflect the financial activity of the organization. Internal financial statements should be prepared at least quarterly, should be provided to the Board of Directors, and should identify and explain any material variation between actual and budgeted revenues and expenses.

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4. DHCDC should comply with all grant reporting requirements, including the submission of required progress reports to the Prince George's County Council.

Schedule 1

Damascus House Community Development Corporation
STATEMENT OF ACTIVITIES
FOR THE PERIODS ENDING
JUNE 30, 2021, and JUNE 30, 2022
(CASH BASIS-UNAUDITED)

	2021	2022
REVENUES:		
Prince George's County Grant	$ 44,810	$ 45,000
Other Income/Loss	41,680	98,813
Total Revenues	$ 86,490	$ 143,813
EXPENDITURES:		
Accounting Services	$ 10,013	$ 16,350
Rent/ Lease	12,000	55,271
Contractor Expenses	3,847	49,319
Repairs/ Maintenance	3,320	16,903
Contract Services	500	-
Taxes/ Licenses	408	867
Travel & Lodging	40	218
Insurance	1,218	8,029
Marketing	419	3,086
Meals/Entertainment	605	2,406
Payroll Expenditures	30,106	7,306
Program Expenses	9,030	11,300
Utilities	9,958	24,519
Service Fees	47	287
Office Supplies	7,921	16,297
Job Supplies	6,202	5,552
Other Reimbursable Expenses	-	2,401
Total Expenditures	$ 95,634	$ 220,111
Excess Revenue Over/(Under) Expenditures	**$ (9,144)**	**$ (76,298)**