

EXECUTIVE DIGEST

METROPOLITAN DETROIT YOUTH FOUNDATION

INTRODUCTION

This report contains the results of our performance and financial related audit of the Metropolitan Detroit Youth Foundation (MDYF) for the period October 1, 1992 through July 31, 1994.

AUDIT PURPOSE

In January 1994, the State Board of Education requested that we conduct an investigation of MDYF's management of State funds for the period October 1, 1992 through July 31, 1994. This audit was conducted in response to the board's request. However, as discussed more fully under our audit scope and methodology section, our audit was subject to scope limitations.

BACKGROUND

MDYF was incorporated in September 1967 as a nonprofit charitable organization under Section 501(c)(3) of the IRS Code. MDYF's mission is to provide the young people of southeast Michigan, especially the economically disadvantaged, with assistance in developing personal, academic, and career skills through the use of programs, research, and advice that identify and address their needs and interests. To accomplish its mission, MDYF provides

building trades and clerical training, a dropout prevention program, a General Education Degree program, and various other programs.

MDYF received an alternative adult education grant of \$1,700,000 through the Department of Education in fiscal year 1992-93 to operate a building trades program. The mission of the building trades program was to provide building trades training and job placement for low income and minority students. MDYF administered this program in conjunction with American Building Trades, Inc.

The Adult Education Alternative Training Grant Program was developed by the Legislature for fiscal year 1992-93. In fiscal year 1992-93, the program was administered by the Department of Education as part of the legislatively designated Interagency Committee consisting of the Departments of Labor, Commerce, and Education and the Michigan Employment Security Commission. For fiscal year 1993-94, administrative responsibility for the program was placed with the Michigan Jobs Commission. Neither the 1992-93 State Aid Act nor the appropriations acts provided funds or staff to develop or monitor the operations of the new competitive grant program.

In August 1993, the Department of Education initiated a program fiscal review of MDYF's Adult Education Alternative Training Grant for a building trades program. The review uncovered programmatic and fiscal irregularities. As a result, the Department's internal auditor recommended that: 1) a full scale audit be conducted by the Office of the Auditor General; 2) funds be withheld from MDYF until a full audit

had been conducted; 3) the tax authorities be contacted to determine the exact amount of the liability and arrange for a settlement; and 4) the local prosecutor and State Police be contacted regarding possible illegal acts.

In addition, MDYF received a grant of \$900,000 in fiscal year 1992-93, through the Department of Education, to operate a student dropout prevention program. The mission of the student dropout prevention program was to reduce the student dropout problem and increase the graduation rate for students in the Detroit Public Schools.

In August 1993 and again in August 1994, MDYF discovered alleged employee fraud. The first instance involved MDYF's comptroller and, as of July 31, 1994, the amount involved is approximately \$139,000. The U.S. Department of Labor, as one of the agencies that provided funds to MDYF, is investigating this allegation. The extent of the alleged fraud may never be known because of missing and inadequate accounting records. The second instance involved the associate executive director and the amount involved was \$10,800. The Federal Bureau of Investigation is investigating this alleged fraud. Both alleged frauds involve State funds. Subsequent to our audit, the IRS started a review of MDYF. We also identified some financial concerns regarding the building trades program and political contributions made by MDYF staff. We have referred these issues to the Department of Attorney General for review.

MDYF's fiscal year 1992-93 revenues and expenditures were \$3,507,207 and \$3,534,976, respectively. As of August 19, 1994, MDYF had 67 employees.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To identify all direct and indirect State funding for MDYF programs.

Conclusion: MDYF's direct and indirect State funding was \$2,620,951 for the 1993-94 grant period and \$4,160,915 for the 1992-93 grant period.

Audit Objective: To evaluate the effectiveness and efficiency of MDYF's administration of its State-funded grant programs.

Conclusion: We concluded that MDYF did not effectively or efficiently administer State-funded grant programs. Also, we concluded that the building trades grant program was not effective or efficient and the dropout prevention grant program was not effective or efficient on a long-term basis. Our review disclosed three material reportable conditions:

- MDYF's internal control structure was not adequate to ensure that it met its program objectives; it obtained, maintained, and fairly disclosed valid and reliable data; it used resources in accordance with pertinent laws and regulations; and it safeguarded resources against waste, loss, and misuse (Finding 1).
- Although MDYF reported that 308 students had completed the building trades program, MESC and our survey were able to identify only 88 (29%) who were placed in jobs. This is far short of MDYF's objectives of placing at least 300 students who complete the program in a training related job for at least one day and placing 270 students

in a training related job for twelve 30-hour weeks. Also, the actual cost per student placed in a job was \$7,093, in contrast to MDYF's objective of \$3,148 per student. (Finding 2)

- The dropout prevention program was successful while the students attended the program and during the semester that followed the program when tutoring services were still available. However, over the long term, there was no significant difference in the grade point averages or dropout rates between students who had taken the program and those who had not (Finding 3).

Audit Objective: To verify MDYF's reported costs for its State-funded programs.

Conclusion: We concluded that some of the costs reported by MDYF were not supported or appropriate. We noted four material reportable conditions:

- MDYF charged expenditures totaling \$492,232 to the building trades grant that were undocumented, invalid, or unauthorized (Finding 4).
- MDYF did not earn \$234,241 of the grant funds the State paid MDYF in fiscal year 1992-93 for the dropout prevention program (Finding 5).
- MDYF violated Section 501(c)(3) of the IRS Code and the Michigan Campaign Finance Act by making contributions to political candidates (Finding 6).

- MDYF appears to have used some of its funds for the personal benefit of MDYF staff (Finding 7).

We also noted other reportable conditions. MDYF did not verify that the State had certified the teachers for the dropout prevention program and the management letters from the public accounting firm engaged by MDYF were not given to its Board of Trustees (Findings 8 and 9).

**AUDIT SCOPE
AND
METHODOLOGY**

The State Board of Education requested that we conduct an investigation of MDYF's management of State funds for the period October 1, 1992 through July 31, 1994. Although our review included expenditures from October 1, 1993 through July 31, 1994, at the time of our audit, grant operations for 1993-94 were incomplete. Therefore, we did not reach a conclusion on the overall validity of 1993-94 grant expenditures. Also, the scope of our audit was limited primarily to grants for the building trades program and the dropout prevention program. In addition, the scope of our audit was affected by MDYF's lack of adequate records and internal controls.

Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

To accomplish our objectives, we performed a preliminary survey of MDYF operations, grants, policies, and procedures. Based on our preliminary survey, we selected

the building trades and dropout prevention State grant programs for review. We reviewed the goals and objectives of these grant programs and assessed their effectiveness and efficiency. Also, we reviewed a sample of expenditures relating to these programs to assess the effectiveness of MDYF's internal control structure.

Subsequent Events

On January 13, 1995, the MDYF Board of Trustees voted to cease MDYF operations. Also, on February 14, 1995, the IRS revoked MDYF's charitable organization status. The revocation was made retroactively effective July 1, 1991.

Because MDYF no longer exists, many of the recommendations in this audit report are no longer applicable. However, we have presented our original findings and recommendations and agency responses to provide a report that is complete, accurate, and objective in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

**AGENCY
RESPONSES**

It is the belief of the MDYF Board of Trustees Executive Committee that the executive director, who was responsible for the operation of MDYF on a day-to-day basis, is the direct cause of the demise of MDYF because of his failure to establish internal controls to monitor every aspect of MDYF's operations. The Committee does not accuse him in any way of intentionally defrauding MDYF, but it believes that he overstepped his bounds of authority in areas which required board approval before any action should have been taken. The board never advised the executive director that he was

acting in an unethical manner or that he was overstepping his bounds of authority because it was unaware that he was doing so and had no way of knowing. The Board of Trustees Executive Committee regrets that it was not more vigilant in overseeing the executive director but, until the alleged embezzlement by the former comptroller, we were under the impression and lead to believe that internal controls were in place. Upon the instance of the second embezzlement situation by the associate executive director, we became convinced that the executive director was no longer able to control the foundation and that internal controls still were not in place. It was shortly after that that the board took over the finances of MDYF but, by that time and with so much publicity, it was too late to do anything but close the doors of MDYF, which occurred in January 1995.