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United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

Review Of Selected Awards To Youth For Understanding, Inc.

Report Number AUD/CG-03-12, December 2002

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SUMMARY

The Office of Inspector General's (OIG) Office of Audits, at the request of the Department of State's (Department) Bureau of Educational and Cultural Affairs (ECA), conducted a limited review of nine grants totaling approximately \$7.7 million awarded Youth for Understanding, Inc. (YFU). On March 8, 2002, YFU ceased operations due to financial problems and later filed Chapter 11 bankruptcy documents in the District of Columbia. At the time of the shutdown, YFU had six open, ongoing grants. They also had three grants that were classified open because YFU had not submitted the required final reports, although the periods of performance were complete.

On March 9, 2002, a separate organization, YFU-USA, Inc., began operations. On March 11, 2002, YFU-USA requested that ECA novate (transfer responsibility on) all open, ongoing grants to the new organization and allow this entity to complete the projects. ECA decided against novating the agreements to YFU-USA and instead made preparations to assign the grants to other organizations. In conjunction with these actions, ECA requested OIG's assistance in determining the amount of federal funds, if any, that YFU owed to the Department.

OIG conducted a limited review of the nine grants and found that, at a minimum, YFU owes the Department \$315,793 for funds drawn in excess of actual needs and disbursed for other than grant expenses, and insurance premiums paid directly by ECA. YFU also failed to demonstrate that it met its cost-sharing provision for six of the nine grants. Therefore, if the Department elects to invoke the adjustment for failing to meet required cost-share amount, OIG estimates that an additional amount of \$113,588 would be due to the Department. Finally, YFU had not yet accounted for federal funds totaling about \$813,000 drawn through Department of Health and Human Services' Payment Management System (including the amounts noted above), which could result in additional costs owed to the Department.

In an attempt to meet creditors' demands, YFU was liquidating its assets, which primarily consisted of property located in the District of Columbia. Therefore, OIG recommended that the Department, working through the Department of Justice (DOJ), file a claim as an outstanding creditor. In May 2002, on behalf of the Department, DOJ filed a creditor's claim stating that ECA should be listed as a creditor so that the sale of YFU's property or any other available assets remains available to cover ECA's claim. OIG further recommends that ECA, in coordination with DOJ, use OIG's calculations to negotiate final settlement of funds due to the Department.

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BACKGROUND

Founded in 1951, YFU has been a grant recipient of ECA without interruption since the late 1970s. The organization's purpose was to carry out a variety of youth-based international exchanges. Since 1983, YFU has managed major components of the Congress-Bundestag Youth Exchange, and beginning in 1993, has handled a large share of the Future Leaders Exchange Program.

As of March 8, 2002, YFU ceased operations. At the time of the shutdown, YFU had six open, ongoing grants with the Department, totaling about \$4.1 million. In addition, YFU had three grants, totaling approximately \$3.6 million, whose period of performance was complete, but that were also classified open because YFU had not submitted the required final reports as shown in Table 1. On June 11, 2002, YFU filed Chapter 11 bankruptcy documents in the District of Columbia.

On March 9, 2002, a new and separate organization, YFU-USA, Inc., began operations. YFU-USA hired or offered employment to a large percentage of the staff of YFU, (approximately 79 out of 116 employees). In addition, YFU-USA maintained the office space of the defunct organization and retained the systems and records related to the grant projects. However, according to the officials, no funds had been transferred between the two organizations. On March 11, 2002, YFU-USA requested ECA to novate (or transfer responsibility on) all open ongoing grants. ECA decided against novating the agreements to YFU-USA and instead made preparations to assign the grants to other organizations. On April 4, 2002, ECA officially notified YFU that the six open and ongoing grants were "Terminated for Cause". As a result, neither YFU nor YFU, USA, Inc. was to perform any further work or incur additional expenses on behalf of the Department's programs.

On March 22, 2002, OIG officials met with representatives of YFU-USA, and the independent auditors and attorney representing YFU. During this meeting, an official¹, who was not an employee of the organization but a contractor hired to temporarily fill a vacancy, revealed that YFU had drawn down funds in excess of the actual needs. These funds had been disbursed for other than grant expenses. The official explained that when this was discovered the organization began offsetting allowable charges in lieu of drawing additional funds. The official estimated that the overdrawn amount, which at one point exceeded \$800,000, had been reduced to approximately \$300,000.

In addition, the official also discussed a potential misuse or loss of funds that may have transpired due to weak internal controls. Consequently, the reliance OIG could place on documentation was limited because the matter involved the finance department of YFU. Further, because potentially the funds in question could have been federal funds, the Department may be entitled to additional claims depending on the resolution of this matter. This matter is currently still under review by OIG and therefore is not discussed in this report.

¹ This person had previously held the same position with YFU.

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PURPOSE, SCOPE, AND METHODOLOGY

The primary purpose of this review was to determine the amount of federal funds owed, if any, that were due back to the government. OIG's scope included the nine open grants shown in Table 1 with related costs incurred as of April 4, 2002. OIG used April 4, 2002, as the cut off date for costs because this was the date that ECA notified the grantee in writing that the entity was to perform no further work or incur any additional expenses in the absence of any prior written authorization. "Incurred costs" are defined as expenditures recorded in the accounting system.

Table 1 – ECA Awards To YFU Open As of 3/8/02

<i>Award Number</i>	<i>Performance Period</i>	<i>Award Amount</i>
G9190323	9/1/99 – 9/30/01	\$2,623,437
PYPS0107	5/1/00 – 8/31/01	\$411,838
PYPS0123	5/19/00 – 8/31/01	\$554,800
		\$3,590,075
PYMA1111	4/25/01 – 8/31/02	\$464,201
PYCS0341	8/31/00 – 9/30/02	\$2,385,239
PYJL1307	8/1/00 - 9/30/03	\$404,000
PYJL0122	5/15/00 – 7/31/02	\$241,730
PYPS1220	7/25/01 – 7/31/02	\$241,730
PYDH0117	5/8/00 – 8/31/02	\$355,227
		\$4,092,127
TOTAL		\$7,682,202

Source: Grant agreements and amendments as of 3/8/02

To obtain information on the accountability and allowability of costs related to federal expenditures, we reviewed YFU's financial records and supporting documentation when available. We obtained data including agreements, amendments, payment records, financial and program reports, and held discussions with officials from the Department (ECA and Office of Legal Adviser), YFU, and YFU-USA. OIG performed several steps to verify expenditures. We scanned the "Detailed Trial Balance" of the general ledger and selected items to test from the following categories: stipends; travel; insurance; and cultural events. OIG planned to test the nine awards beginning with the four grants that, according to the ledgers, were overdrawn. However, OIG suspended testing because YFU's files were not maintained in a manner to facilitate a review. Often support for payment was not in the proper file, receipts were missing, recorded information did not explain the expense, or the expense had not been allocated to a grant. In some cases, there were no files.

We noted that in a management letter dated September 15, 2001, to YFU from its public accountants, the accountant reported, among other items, that:

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- Important internal controls such as proper disbursement approvals, invoice cancellation procedures, cash receipt and deposit processing and segregation of incompatible duties were often being overlooked.
- This accounting function disorganization will continue to cause errors in the financial records and financial statements as well as allowing **for possible irregularities including fraud to exist and continue without notice.** (Emphasis Added)

As previously noted, YFU's records were being maintained by YFU-USA. Thus, the employees available to provide assistance during our review were now employees of the new organization, and had other duties. Further, some of these people could not adequately respond to OIG's inquiries because they did not have sufficient institutional knowledge.

OIG conducted field work at YFU's office located in Washington, D.C., from April 8 through May 30, 2002. Our procedures were limited to those necessary to support the conclusions reached in this report. We conducted these limited procedures in accordance with generally accepted government auditing standards; however, such procedures did not constitute an audit under those standards. Had we been able to perform an audit, other matters may have come to our attention. Major contributors to this report included Fay Ropella, division director; August VanDessel, audit manager; Karen Crue, senior auditor; and Cheryl Lucas, senior analyst.

REVIEW RESULTS

At a minimum, YFU owed \$315,793 back to the federal government. This is so because the organization drew federal funds in excess of its actual needs and disbursed it for other than grant expenses. YFU also failed to demonstrate that it met its cost-sharing provision for six of the nine grants. Therefore, if the Department elects to invoke the adjustment for failing to meet required cost-share amount, OIG estimates that an additional amount of \$113,588 would be due to the Department. Finally, YFU had not yet accounted for federal funds totaling about \$813,000, which could result in additional costs owed to the Department.

Funds Drawn In Excess Of Actual Needs

Under four grants, as shown in Table 2, OIG found that YFU had drawn down \$354,320 through March 13, 2002, in excess of grant expenditures recorded in its accounting system. Circular A-110, Subpart D-paragraph .73, states that "any funds paid to a recipient in excess of the amount to which the recipient is finally determined to be entitled under the terms and conditions of the award constitute a debt to the federal Government."

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Table 2 – Differences Between Funds Drawn Down and Incurred Costs

<i>Grant Number</i>	<i>Funds Drawn Down</i>	<i>Incurred Costs</i>	<i>Difference</i>
PYMA-1111	\$460,000	\$268,054	\$191,946
PYPS-0107	\$409,350	\$341,071 ²	\$68,279
PYCS-0341	\$2,379,832	\$2,357,733	\$22,098
PYDH-0117	\$351,475	\$279,479	\$71,996
Total Difference			\$354,320

Source: Grant agreements; HHS payment data; YFU general ledger
Funds drawn down as of March 13, 2002. Incurred Costs as of April 4, 2002.
All Numbers rounded to the nearest whole dollar and therefore may not add correctly.

In a management letter dated September 2001, the grantee’s independent auditors stated that:

- “During our audit procedures and subsequent time period, we noted YFU has gone through extended periods without a definitive and reasoned estimate of its current cash flow position at a given point in time.
- The ability to monitor cash flow and current budget projections with accuracy and in real time is essential for YFU going forward given its recent large net operating deficits and its need to therefore utilize its cash as effectively as possible to enable its ability to attempt a financial recovery.”

A YFU-USA official stated that YFU used the excessive drawdowns from federal grants to cover other operating expenses during a period of financial difficulty. OIG’s analysis of YFU’s cash flow through its operations bank account showed that YFU would have had insufficient funds to cover expenditures had it not taken excessive drawdowns in August 2001.

In a summary document, dated May 10, 2002, YFU estimated the grants overdraft owed for the four grants was about \$262,120. As previously noted, YFU had been offsetting allowable (new) grant-related charges in lieu of drawing additional funds in an attempt to reduce and/or eliminate the overdrawn amount. Therefore, YFU had not requested funds for four other grants, even though the incurred costs recorded in the accounting system exceeded what YFU had received through the payment system. As a result, the same document stated that YFU was due \$66,912 for costs it had incurred, but for which payment had not yet been requested, under four other grants³.

Accordingly, YFU believed it owed approximately \$195,208 (the net of their overdraw minus the amount they had not requested) back to the government. However, the figure that YFU used for total expenses, as shown in Appendix A, included an estimate, of \$67,498, for FY 2001 expenses that had “yet to be booked” in its accounting system. It also included \$24,701 of adjustments to be made in relation to the indirect cost and fringe benefit rates.

² The general ledger total did not include a negative adjustment to indirect costs of \$379.

³ (PYJL-1307, \$52,599.11; PYPS-1220, \$12,122.67; PYPS-0123, \$2,153.22; and G9190323, \$37.00).

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As shown in Table 3, OIG reconciled to YFU's calculations except for the \$67,498, which we excluded because these costs were estimated and not recorded into the accounting system as of May 2002. Therefore, OIG concluded that YFU owed the federal government \$262,707 for excessive drawdowns. As of July 2002, YFU had not repaid any funds to the federal government.

Table 3 – Reconciliation of Excessive Drawdowns

<u>OIG Calculations</u>		<u>YFU Calculations</u>	
Total Overdrawn	\$354,320	Total Overdraft Amount	\$262,120
Indirect Adjustment	(24,701)	Accrued But Undrawn	<u>(66,912)</u>
Accrued But Undrawn	<u>(66,912)</u>	Net Overdraft	195,208
		Unbooked Estimated Amount	<u>67,498</u>
Net Due	<u>\$262,707*</u>	Net Due	<u>\$262,706</u>

*Due to rounding.

Under Case No. 02-1169 in the United States Bankruptcy Court for the District of Columbia, ECA, working with the Department of Justice, submitted a claim in the amount of \$388,000⁴. ECA based this claim on early estimates of the overdrawn amount and several other factors including \$53,000 for insurance premiums that were budgeted for in YFU grants but not yet paid when the entity ceased operations. ECA made the insurance premium payments directly to the provider, totaling \$53,086, to ensure that students' coverage was maintained through the completion of the program.

A portion of this amount covered costs (\$43,692) for grant PYJL-0122. YFU had drawn down all funds for this grant, yet this portion of the insurance premium had not been paid. The remainder, totaling \$9,394, covered the unpaid premium for grant PYMA-1111. Although YFU had not completely drawn down the authorized funds, YFU had insufficient funds remaining available through PMS to cover this amount. An official explained that the billing cycle for the insurance premiums did not necessarily coincide with the grant periods. For example, the premium for the fourth quarter of a particular grant might not be billed until after the completion date of a given grant.

Because the \$53,000 was included in the approved budgets to YFU, but not paid by YFU and instead was paid directly by ECA, OIG recommends that this amount be deducted from the entity's final approved budgets for the two grants. Consequently, YFU would owe the Department \$315,793 for excessive drawdowns (\$262,707) and insurance premiums (\$53,086).

Minimum Cost Sharing Not Always Met

YFU did not always meet the grants' minimum cost share amounts. YFU proposed cost sharing of \$275,131, as shown in Table 4. YFU reports, made available to OIG during our fieldwork, showed that YFU had only \$100,954 in cost sharing. However, these financial reports

⁴ On July 19, 2002, an attorney representing YFU attorney notified the Department that the amount was being disputed.

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had not been signed or certified by an authorized official, nor had YFU submitted the final reports to ECA. Article III of the grant agreements contained the following statement regarding cost sharing:

...In the event the Recipient does not provide the minimum amount of cost sharing as stipulated in the Recipient's approved budget, the Department's contribution **will be reduced in proportion** [emphasis added] to the Recipient's contribution.

As shown in Table 4, OIG calculated the potential reduction of the award amounts by multiplying the actual cost incurred by the original percentage of proposed cost share. (OIG calculated the percentage of proposed cost share by dividing proposed amount by total costs of the program, which included both the Department's and YFU's contributions.)

Table 4 – Proposed Cost Share Reduction

Award Number	Grant Amount	Proposed Cost Sharing	Percentage of Total Costs	Amount Provided*	Unmet Amount	Actual Costs Incurred	Potential Reduction
G9190323	\$ 2,623,437	\$ 32,943	1.24%	\$ 32,943			
PYDH-0117	\$ 355,227	\$ 26,469	6.93%	\$ -	\$ 26,469	\$ 279,628	\$ 19,378
PYCS-0341	\$ 2,385,239	\$ 25,558	1.06%	\$ -	\$ 25,558	\$ 2,366,528	\$ 25,085
PYMA-1111	\$ 464,201	\$ 43,450	8.56%	\$ -	\$ 43,450	\$ 283,811	\$ 24,294
PYPS-0107	\$ 411,838	\$ 47,267	10.30%	\$ -	\$ 47,267	\$ 341,071	\$ 35,130
PYPS-0123	\$ 554,800	\$ 63,952	10.34%	\$ 63,952			
PYJL-0122	\$ 241,730	\$ 4,059	1.65%	\$ 4,059			
PYJL-1307	\$ 404,000	\$ 25,559	5.95%	\$ -	\$ 25,559	\$ 145,764	\$ 8,673
PYPS-1220	\$ 241,730	\$ 5,874	2.37%	\$ -	\$ 5,874	\$ 43,394	\$ 1,028
Total		\$275,131		\$100,954	\$174,177		\$ 113,588

Source: grant agreements and budget proposals; YFU's summary reports

*Reports showed that YFU provided cost sharing in excess of the minimum required amount. However the financial reports were not signed, certified, or submitted to the Department.

Therefore, if YFU fails to submit required documentation showing that it met its cost-sharing provision for the six noted grants, the Department could reduce the award amounts and adjust its final claim upwards by \$113,588.

Final Accounting For Funds Drawn Under Payment Management System Not Complete

YFU did not file the required reports to document the disbursement of funds drawn through the Department of Health and Human Services' (HHS) Payment Management System (PMS). The Department had authorized YFU to utilize the PMS to obtain grant funds⁵. Quarterly, PMS requires the grantee to submit a Standard Form 272 – *Federal Cash Transaction Report* –, which reports on the funds drawn, funds disbursed, and funds on hand. The last report HHS received from YFU covered only the period ending December 31, 2001. That report showed cash on hand

⁵ Under the PMS, the Department establishes accounts with PMS for each approved grantee and subaccounts for each grant. The Department notifies PMS of the grant amount. The grantee then can electronically request fund transfers on an as needed basis.

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totaling nearly \$800,573. As of March 13, 2002, YFU had not accounted for nearly \$813,000, according to the individual PMS subaccounts, as shown in Table 5.

Table 5 – Funds Drawn Down versus Funds Reported Disbursed

<i>Grant Number</i>	<i>Grant Amount</i>	<i>Funds Drawn Down</i>	<i>Funds Disbursed</i>	<i>Funds Unaccounted For</i>
G9190323	\$2,623,437	\$2,623,400	\$2,623,437	(\$ 37)
PYPS0107	\$411,838	409,350	359,209	\$50,141
PYPS0123	\$554,800	552,647	554,800	(\$2,153)
PYMA1111	\$464,201	\$460,000	\$197,715	\$262,285
PYCS0341	\$2,385,239	\$2,379,832	\$2,065,251	\$314,581
PYJL1307	\$404,000	\$93,165	\$67,366	\$25,799
PYJL0122	\$241,730	\$241,730	\$241,730	\$ 0
PYPS1220	\$241,730	\$31,271	\$31,696	(\$ 425)
PYDH0117	\$355,227	\$351,475	\$188,890	\$162,585
TOTAL		\$7,142,870	\$6,330,094	\$812,776

Source: PMS System Printouts as of March 13, 2002; Amounts rounded to the nearest whole dollar.

YFU had an obligation to certify to HHS that the organization had disbursed the funds drawn for allowable grant expenses. Therefore, the Department could increase its claim by \$550,069,⁶ if YFU fails to certify to HHS that it had disbursed funds for grant expenses.

Conclusions

At a minimum, YFU owes the Department \$315,793 for excessive drawdowns and funds used for other than their intended purpose. The amount owed to the Department could increase to \$429,381 if the Department opts to invoke the adjustment for failing to demonstrate it met its cost-sharing provision. If YFU fails to certify through PMS that "...all disbursements have been made for the purpose and conditions of the grant..." the amount owed could be raised to about \$813,000.

Recommendation 1: We recommend that the Bureau of Educational and Cultural Affairs, in coordination with the Department of Justice, continue to work to recover the amounts owed and use OIG's calculations to negotiate final settlement of funds due to the government.

⁶ OIG calculated this number as total funds unaccounted for to HHS (\$812,776) less net of excessive drawdowns totaling \$262,707.

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**RECONCILIATION OF FUNDS DRAWN TO YFU EXPENDITURES
As of May 10, 2002**

<i>Grant Number</i>	<i>Grant Award Amount</i>	<i>Funds Drawn Down</i>	<i>Incurred Costs</i>	<i>Overdrawn/ (Underdrawn)</i>	<i>Indirect/ Fringe Adjustments</i>	<i>Estimated Costs to be booked</i>	<i>Total Expenditures per YFU</i>	<i>Difference</i>	<i>Notes</i>
	<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d)</i>	<i>(e)</i>	<i>(f)</i>	<i>(g)</i>	<i>(h)</i>	
<i>Over drawn Grants</i>									
PYMA-1111	\$ 464,201.00	\$ 460,000.00	\$ 268,054.34	\$ 191,945.66	\$ 15,756.44	\$ -	\$ 283,810.78	\$ 176,189.22	
PYPS-0107	\$ 411,838.00	\$ 409,350.32	\$ 341,070.73	\$ 68,279.59	\$ -	\$ 2,220.00	\$ 343,290.73	\$ 66,059.59	1
PYCS-0341	\$ 2,385,239.00	\$ 2,379,831.56	\$ 2,357,733.10	\$ 22,098.46	\$ 8,795.23	\$ -	\$ 2,366,528.33	\$ 13,303.23	
PYDH-0117	\$ 355,227.00	\$ 351,474.72	\$ 279,478.91	\$ 71,995.81	\$ 149.45	\$ 65,278.00	\$ 344,906.36	\$ 6,568.36	
SUB TOTAL	\$ 3,616,505.00	\$ 3,600,656.60	\$ 3,246,337.08	\$ 354,319.52	\$ 24,701.12	\$ 67,498.00	\$ 3,338,536.20	\$ 262,120.40	
<i>Other Grants</i>									
G9190323	\$ 2,623,437.00	\$ 2,623,400.00	\$ 3,178,307.34	\$ (37.00)	\$ -	\$ -	\$ 3,178,307.34	\$ (37.00)	2
PYPS-0123	\$ 554,800.00	\$ 552,646.78	\$ 727,146.19	\$ (2,153.22)	\$ (0.39)	\$ -	\$ 727,145.80	\$ (2,153.22)	3
PYJL-1307	\$ 404,000.00	\$ 93,164.85	\$ 123,801.47	\$ (30,636.62)	\$ 21,962.48	\$ -	\$ 145,763.95	\$ (52,599.10)	4
PYPS-1220	\$ 241,730.00	\$ 31,270.88	\$ 35,221.58	\$ (3,950.70)	\$ 8,171.97	\$ -	\$ 43,393.55	\$ (12,122.67)	5
PYJL-0122	\$ 241,730.00	\$ 241,730.00	\$ 310,329.64	\$ -	\$ (3,421.19)	\$ -	\$ 306,908.45	\$ -	
SUB TOTAL	\$ 4,065,697.00	\$ 3,542,212.51	\$ 4,374,806.22	\$ (36,777.54)	\$ 26,712.87	\$ -	\$ 4,401,519.09	\$ (66,911.99)	
GRAND TOTAL	\$ 7,682,202.00	\$ 7,142,869.11	\$ 7,621,143.30	\$ 317,541.98	\$ 51,413.99	\$ 67,498.00	\$ 7,740,055.29	\$ 195,208.41	

Sources:

- (a) Grant number and amounts - Agreement and amendments as of March 8, 2002.
- (b) Funds drawn down - HHS records as of March 13, 2002.
- (c) Incurred Costs - Costs incurred as of April 4, 2002 and recorded in accounting system as of May 2002.
- (d) Overdrawn/(Underdrawn) - Column (b) minus Column (c), except as noted.
- (e) Indirect/Fringe Adjustments - YFU records as of May 2002.
- (f) Estimated costs to be booked - YFU records as of May 2002.
- (g) Total Expenditures per YFU - Column (c) plus Column (e) plus Column (f).
- (h) Difference - Column (b) - Column (g), except as noted.

Notes:

- 1. The figure in column (c) does not include a negative adjustment to indirect costs (\$379.73).
- 2. Incurred costs recorded in the accounting system exceeded authorized grant amount; difference equals authorized amount minus funds drawn.
- 3. Incurred costs recorded in the accounting system exceeded authorized grant amount; difference equals authorized amount minus funds drawn.
- 4. YFU records indicated amount due of \$52,599.10; the underdrawn amount plus the indirect/fringe adjustment.
- 5. YFU records indicated amount due of \$12,122.67; the underdrawn amount plus the indirect/fringe adjustment.

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