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OFFICE OF INSPECTOR GENERAL FOR AUDIT

Audit Related Memorandum
No. 98-DE-249-1801

March 2, 1998

MEMORANDUM FOR: Michael T. Savage, Acting Director, Office of Economic
Development, DEE

FROM: W. D. Anderson, District Inspector General for Audit, 8AGA

SUBJECT: Cole Coalition Youthbuild Program
Denver, Colorado

We have completed a limited review of Youthbuild Program administered by Cole Coalition Incorporated in Denver, Colorado. The objectives of the review were to determine if an adequate financial system existed to properly account for expenditures and to determine the current program outcome results .

SUMMARY

In conducting our review, we evaluated Cole Coalition's financial management system, financial records and supporting source documentation. We also reviewed the payroll files, student administration files, student training files, and construction report files. Our review also included interviews with the Executive Director of the Cole Youthbuild Program and other former program partners.

We found that Cole Coalition had developed an adequate financial management system and had financial records and supporting documentation which supported the funds that had been spent on the Youthbuild Program.

We found that the Cole Youthbuild Program had produced few positive results because of poor working relationships between the grant applicant partners. Cole Coalition suspended the program during July 1997 and released the remaining students from the program.

HUD is presently deciding if the program should be re-started and continue under the direction of Cole Coalition, or if the grant should be canceled.

BACKGROUND

Cole Coalition was established in 1990. Cole Coalition is a neighborhood-based non-profit organization whose Board of Directors is comprised primarily of neighborhood residents.

In partnership with Annunciation Housing Partners (now Neighborhood Partners), and Denver Area Youth Services, Cole Coalition submitted planning and implementation grant applications to HUD. Neighborhood Partners is a neighborhood based non-profit housing developer, while Denver Area Youth Services is a community-based organization serving inner-city youth and families.

Cole Coalition was awarded three grants under the Youthbuild Program. A planning grant for \$100,000, has been totally expended. The fiscal year 1995 implementation grant for \$871,800, is the Youthbuild grant under review. An additional fiscal year 1996 grant was awarded for \$700,000. The fiscal year 1996 grant has not yet been authorized in the HUD Line of Credit Control System and is not accessible by Cole Coalition.

The three organizations planned to train 24 youths to renovate four single family houses over a 30 month period. According to the planning agreement, Cole Coalition was to be the lead organization, Neighborhood Partners would provide the homes and construction experience, and Denver Area Youth Services would provide the educational and counseling services. The fiscal year 1995 grant became effective October 6, 1995.

After the 1995 implementation grant became effective, Cole Coalition requested permission from HUD to replace Denver Area Youth Services with Adult Learning Source as the educational provider. HUD approved this request in July 1996. HUD placed a temporary hold on the grant account on November 19, 1996 because of Cole Coalition's poor financial controls. This hold required Cole Coalition to justify expenses to HUD before grant funds would be released. Neighborhood Partners withdrew from the program in March 1997. Neighborhood Partners removed the homes from the program they had provided for renovation purposes when they withdrew from the partnership. Cole Coalition suspended the program on July 9, 1997.

HUD officials met with Cole Coalition on October 2, 1997 and requested that a revised application be submitted to HUD by October 17, 1997. HUD officials agreed to make a decision concerning the continued funding of the Cole Youthbuild Program by October 24, 1997. The application was to include a detailed plan for re-starting the program, taking into consideration the significant program and organizational changes that had occurred. Cole Coalition submitted the application on October 17, 1997. At the present time, the Office of Economic Development has not made a determination concerning the continuation of the fiscal year 1995 or 1996 grant.

INTERNAL CONTROLS

At the time of our review, the Cole Coalition Youthbuild operations were at a minimum. The Executive Director was the only employee. Documentation from prior operations was used to evaluate internal controls.

An independent CPA completed a review in April 1996. This review found that there was an absence of appropriate segregation of duties relative to the cash area and that the bookkeeping system needed to be upgraded.

A HUD contracted financial management consultant completed a financial management assessment and technical assistance in June 1997. The review report cited many internal control and accounting control procedure weaknesses. The report contained 20 recommendations for improving internal controls in the areas of cash receipts, disbursements, payroll, HUD reimbursements, and reconciliation. The report also evaluated the accounting system. It described the existing accounting system as filed copies of source documentation with limited compilation of the information into proper record keeping or reporting formats. The report offered seven general actions that should be taken to improve the accounting system.

Our review showed that an adequate accounting system has been established and prior fiscal year 1995 grant financial transactions have been entered into the system. Documentation also shows that most of the recommended internal control and accounting control procedure weaknesses had been implemented before suspension of the program.

RESULTS OF REVIEW

To accomplish our objectives, we reviewed Cole Coalition's financial management system, financial records and supporting documentation. We verified implementation grant expenses charged to the Youthbuild Program. We verified original source documentation and evaluated the eligibility of the expenditures. We also reviewed payroll files, student administration files, student training files, and construction report files. Our review also included interviews with the Executive Director of the Cole Coalition Youthbuild Program, the Director and the Construction Manager for Neighborhood Partners, Director of Denver Area Youth Services, and the Director of Adult Learning Source. Our review covered the period from October 1, 1995 to September 30, 1997. We conducted our review during October 1997. We conducted the review in accordance with generally accepted government auditing standards.

We determined that the Cole Coalition has developed an adequate financial system. Youthbuild USA contracted with an independent financial management consultant to assess Cole Coalition's accounting system and internal control procedures. With initial assistance from the management consultant in June 1997 and follow-up assistance from the consultant, Cole Coalition has developed an adequate financial management system.

The Cole Youthbuild Program has not accomplished its original goals of the project, has not met all program criteria, and has had few positive results. The program suffered many changes and internal disagreements which led to adverse results and an eventual suspension of the program by

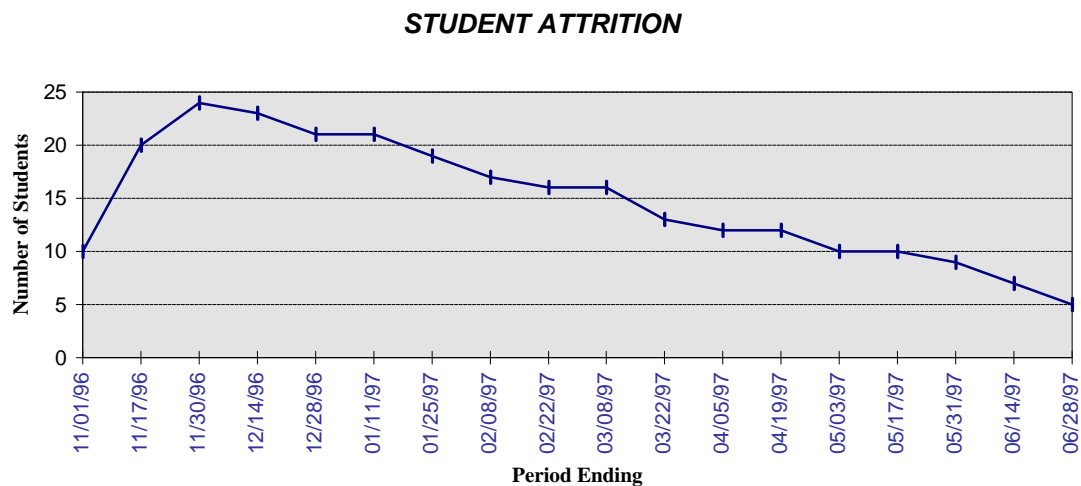
Cole Coalition. These disagreements led to substantial changes including:

- The withdrawal of two of the three original partnership agencies,
- A change of the on-site construction site,
- A change to the 50% on-site training requirement, and
- A large change in the number of students being served.

All of the above changes required an amendment to the grant agreement. However, only the replacement of Denver Area Youth Services with Adult Learning Sources was approved by HUD. Cole Coalition did not request an amendment for the other changes.

The implementation grant application submitted by the three collaborating partners intended to graduate 24 participants from the Youthbuild Program. The program was to provide the participants with developed academic skills, employability potential, life skills, entrepreneurial skills, and leadership skills. The program was also intended to complete the renovation of four houses, which were to be sold to low or very low income families.

The grant became effective in October 1995, participants started entering the program in October 1996. By November 1996, twenty-four students were enrolled in the program. However, there were only five students enrolled in the program when Cole Coalition suspended the program in July 1997. The chart below illustrates the student attrition.



Cole Coalition records indicate that 8,822 hours of in-class training was provided, including 5,323 hours of GED training. Only 5,229 hours of on-site training was performed. The amount of on-site training amounted to approximately 37% percent of the training provided.

During the program, Cole Coalition terminated eleven students due to attendance problems. Eight additional students dropped out of the program on their own accord. Of the five remaining students, two received a GED certificate.

The Youthbuild grant was awarded for a total amount of \$871,800. As of September 19, 1997, Cole Coalition records indicated that approximately \$419,000 has been expended, which leaves approximately \$452,800 remaining in the fiscal year 1995 implementation grant. Cole Coalition has requested that the temporary hold, that was placed on their account by HUD in November 1996, be lifted off their account and that they be allowed to continue their Youthbuild Program. They submitted a new application to HUD, at the request of the Office of Economic Development, on October 17, 1997. This application indicates that Cole Coalition plans to totally renovate two abandoned houses and graduate 20 students from the program using the remaining grant balance. Cole Coalition would be the sole agency involved in the administration and training responsibilities of the program. At this point no decision has been made by HUD concerning the continuation of the fiscal year 1995 or 1996 Cole Youthbuild Program.

RECOMMENDATIONS

- 1A We recommend that the Office of Economic Development decide if the Cole Youthbuild Program grants will continue to be funded. This decision needs to be made as soon as possible in order for Cole Coalition to carry out the program as required. Presently, Cole Coalition is incurring salary and overhead costs with no meaningful program results.
- 1B If HUD decides to continue to fund the Cole Youthbuild Program, we recommend that the Office of Economic Development closely monitor program results. This monitoring should be designed to determine if program results are being accomplished in accordance with the grant agreement.
- 1C If HUD decides not to continue to fund the Cole Youthbuild Program, we recommend that HUD recover the funds remaining in the fiscal year 1995 Cole Youthbuild implementation grant.

Within 60 days, please furnish this office, for the recommendations cited in the memorandum, a status report on: (a) the corrective action taken; (b) the proposed corrective action and the date to be completed; or (c) why the action is not considered necessary. Also please furnish us copies of any correspondence or directives issued because of the review.

We appreciate the courtesies extended by the Office of Community Planning and Development and Cole Coalition during our review. Should you have any questions, please contact Ernest Kite, Assistant District Inspector General for Audit, at (303) 672-5452.