

## Report in Brief

Date: September 2020  
Report No. A-06-17-07004

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Audit

The Office of Refugee Resettlement (ORR) within the Department of Health and Human Services, Administration for Children and Families (ACF), manages the Unaccompanied Alien Children (UAC) Program. We initiated a series of audits of UAC Program grantees because, beginning in fiscal year (FY) 2012, there were significant increases in both the number of children served by the UAC Program and program funding, as well as multiple changes to ORR policies beginning in FY 2014.

We selected Southwest Key Programs (Southwest Key), a UAC Program grantee, to audit because it is one of the largest providers of services to children in the UAC Program. We conducted this audit in conjunction with our review of Southwest Key's safety standards for the care and release of children in its custody.

Our objective was to determine whether Southwest Key claimed only allowable expenditures in accordance with applicable laws and regulations during Federal FY 2016.

### How OIG Did This Audit

We reviewed a statistical sample of financial transactions in FY 2016 and Southwest Key's financial management system.

## Southwest Key Programs Failed To Protect Federal Funds Intended for the Care and Placement of Unaccompanied Alien Children

### What OIG Found

Southwest Key claimed unallowable costs related to the UAC Program. Based on our financial review results, we determined that Southwest Key claimed unallowable costs for capital leases, a related-party lease, and other ancillary costs related to leases. Southwest Key also claimed unallowable compensation related to influx bonuses and executive compensation. Additionally, Southwest Key claimed other unallowable expenses. We also determined that Southwest Key's financial management system lacked effective controls for ensuring accountability of Federal funds. Specifically, Southwest Key did not comply with Federal regulations and ensure that it followed its own policies and procedures.

### What OIG Recommends

We recommend that Southwest Key: (1) refund to the Federal Government \$10,529,446 in unallowable direct costs and \$1,246,973 in associated indirect costs; (2) refund to the Federal Government \$1,354,429 in unallowable executive compensation; (3) implement procedures to review leases and ensure that all rental and ancillary costs claimed comply with Federal regulations; (4) ensure that no Federal funding, direct or indirect, is used for future compensation that exceeds the statutorily allowed rate for executive compensation; and (5) maintain documentation supporting Federal financial reports. We also made policy and procedural recommendations.

Additionally, we recommend that ORR: (1) review remaining Southwest Key leases to ensure that the leases are in compliance with Federal regulations and recover any unallowable costs, (2) provide guidance on allowable costs, and (3) review Southwest Key's bonus policy to ensure compliance with Federal regulations. We also made a procedural recommendation.

In written comments on our draft report, Southwest Key disagreed or partially disagreed with all but one of our findings and outlined actions it has taken and plans it has to address the findings. We maintain that our findings and recommendations are valid. In written comments on our draft report, ACF generally concurred with five of our six recommendations and indicated that it will consider OIG's work regarding lease and bonus findings.

Southwest Key's and ACF's comments are summarized in the report and included in the appendices.