



JAN 27 2003

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Report Number: A-01-02-01503

Mr. Gary Daffin
Executive Director
Multicultural AIDS Coalition
801B Tremont Street
Boston, Massachusetts 02118

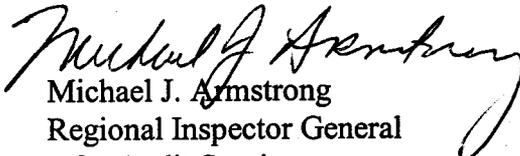
Dear Mr. Daffin:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled "Audit of HIV/AIDS Activities at the Multicultural AIDS Coalition for the Period July 1, 2000 Through September 30, 2002". A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of information Act (5 U.S.C 552, as amended by Public Law 104-231), OIG, OAS reports issued to Department's grantees and contractors are made available to members of the press and general public to the extent information therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.) To facilitate identification, please refer to Report Number A-01-02-01503 in all correspondence relating to this report.

Sincerely yours,


Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Chief, Cost Advisory Activity
Procurement and Grants Office
Office of Program Support
Centers for Disease Control and Prevention
2920 Brandywine Road
Atlanta, Georgia 30341-5539

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF HIV/AIDS ACTIVITIES AT
THE MULTICULTURAL AIDS
COALITION FOR THE PERIOD
JULY 1, 2000 THROUGH
SEPTEMBER 30, 2002**



JANET REHNQUIST
Inspector General

JANUARY 2003
A-01-02-01503

Office of Inspector General

<http://oig.hhs.gov>

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Executive Director
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Dear Mr. Daffin:

This final report represents the results of our self-initiated audit at the Multicultural AIDS Coalition (MAC), located in Boston, Massachusetts. This audit was performed as part of a nationwide Office of Inspector General review of HIV/AIDS-related programs and grantees of the Centers for Disease Control and Prevention (CDC). The objectives of our audit were to determine whether the MAC: (1) met grant performance expectations during the period July 1, 2000 through September 30, 2002 for two grants funded by CDC; and (2) was in compliance with grant financial and reporting requirements.

The MAC has generally met its overall performance expectations but needs to improve its financial management system to ensure grant funds are used for the intended purpose. We specifically found that:

- The MAC allocated personnel costs to federal grants based on budget estimates because it had not developed a system for allocating salaries and wages to federal grants and contracts based on personnel activity reports for each employee, as required by federal regulations. As a result, salaries and wages unrelated to federal grants' activity may have been supported with federal funds.
- Two MAC employees, whose salaries were paid with CDC funds, appeared to be involved in lobbying activities—an unallowable charge under federal regulations. Given that MAC does not have a system to allocate salaries and wages to federal grants based on actual effort spent by employees, it is possible that a portion of the total charges of \$360,000 to the CDC's Community Coalition Development Project may have supported unallowable lobbying activities during the period October 2001 through September 2002. The MAC officials stated that the activities in question pertain to community education and mobilization and, therefore, do not meet the definition of unallowable lobbying activities.

We are recommending that MAC continue its efforts to: implement its revised system for allocating personnel costs and periodically monitor the personnel costs charged to federal awards; and develop written policies and procedures addressing the types of costs and activities that are unallowable as charges to federal grants.

In its response to our draft report, the MAC generally concurred with our findings and recommendations.

INTRODUCTION

BACKGROUND

The Multicultural AIDS Coalition

The Multicultural AIDS Coalition (MAC) is a non-profit community-based organization committed to the delivery of HIV/AIDS related prevention, education, and intervention services for communities of color. The MAC was established in 1988 in response to the growing impact of the HIV/AIDS epidemic in communities of color to provide education and training on HIV/AIDS in a wide variety of settings and formats with programs tailored to meet the needs of the audience. During fiscal year ending June 30, 2001, the MAC had over \$1.6 million in expenditures charged to federal awards from the CDC, the Health Resources and Services Administration, and the Office of Minority Health.

HIV/AIDS Funding at MAC

For FY 2002, in the area of HIV/AIDS, MAC received direct funding from CDC in the amount of \$360,000; and for calendar year 2002, it received CDC funding in the amount of \$180,000 from the State of Massachusetts. These grants are described in more detail below.

CDC's Community Coalition Development Project

The MAC received an award of \$360,000 from CDC under the Community Coalition Development Projects program for African American Communities for the period September 30, 2001 through September 29, 2002. The purpose of the program is to improve and support the health of African American communities disproportionately affected by HIV, sexually transmitted diseases (STD), tuberculosis (TB), and substance abuse within their respective communities. The goals of the program are to increase access to health services by: (1) using community coalitions to develop linked networks of HIV, STDs, TB, and substance abuse prevention, treatment, and care services for African American communities; and (2) strengthening existing linkages among local prevention, treatment, and care providers to better serve these communities. Funds available under this program must support activities directly related to primary HIV prevention and the prevention of other STDs, TB, and substance abuse.

Under the program, the MAC serves as the lead agency for the Black HIV/AIDS Coalition (BHAC). The BHAC is a coalition of African American health and human service providers formed to address the urgent need for accessible and effective HIV/AIDS services targeted to Black residents. The coalition includes over 25 organizations, with representation from community health centers, community organizations, key elected officials, and members of the faith community. The mission of the BHAC is: "To build and sustain a staffed, community-driven coalition dedicated to improving access to health care for the state's African-American residents through advocacy, community engagement, building of linked provider networks, and facilitation of technical assistance and resource development."

CDC's Prevention and Education Cooperative Agreement

The MAC received federal funds totaling \$180,000 during calendar year 2002 from the Massachusetts Department of Public Health under the CDC's Prevention and Education (P&E) Cooperative Agreement. The goals of the P&E Cooperative Agreement are to assist public health departments: (1) reduce or prevent the transmission of HIV by reducing or preventing behaviors or practices that place persons at risk for HIV infection; (2) reduce associated morbidity and mortality of HIV-infected persons by increasing access to early medical intervention; and (3) incorporate the views and perspectives of groups at risk for HIV infection for whom the programs are intended, as well as providers of HIV prevention services. In addition, P&E programs provide individuals a convenient opportunity to: (1) learn their current HIV serostatus; (2) participate in counseling to help initiate and maintain behavior change to avoid infection or, if already infected, to prevent transmission to others; and (3) obtain referral to additional prevention, medical care, and other needed services. The CDC awards funds to 50 states for this program.

Regulations

The standards and administrative requirements for financial management systems for nonprofit organizations are contained in Office of Management and Budget (OMB) Circular A-110; cost principles are found in OMB Circular A-122; and program guidance is published by the CDC.

Federal regulations require recipients of federal grants and contracts to establish financial management systems that provide for:

- Records that identify adequately the source and application of funds for federally-sponsored activities, and
- Written procedures for determining the reasonableness, allocability, and allowability of costs.

In order for costs to be charged to federal grants, the costs must be reasonable, allowable, and allocable. To be allowable under an award, costs must meet the following general criteria:

- Be reasonable and allocable for the performance of the award,
- Conform to any limitations or exclusions set forth in the cost principles or in the award as to types or amount of cost items, and
- Be adequately documented

OBJECTIVE, SCOPE, AND METHODOLOGY

Objectives

The audit objectives were to determine whether the MAC: (1) met grant performance expectations during the period July 1, 2000 through September 30, 2002 for two grants funded by the CDC; and (2) was in compliance with grant financial and reporting requirements.

Scope

During FY 2002, the MAC received \$360,000 from the CDC under the Community Coalition Development Project. In addition, the MAC received \$408,000 during calendar year 2001 and \$180,000 during calendar year 2002 from CDC, via the State of Massachusetts Department of Public Health, under the HIV/AIDS P&E Cooperative Agreement.

Methodology

To accomplish our objectives, we:

- Reviewed a judgmentally selected sample of 41 transactions, totaling \$46,719, charged to the CDC's Community Coalition Development Project and 80 transactions, totaling \$129,118, charged to the CDC's P&E Cooperative Agreement.
- Analyzed applicable laws, regulations, and CDC program guidelines to determine whether MAC had an adequate financial management system and whether costs charged to the grants were appropriate.
- Assessed MAC's system of internal controls related to its financial management systems.
- Reviewed supporting documentation and interviewed appropriate MAC officials to determine whether the costs were reasonable, necessary and allocable.
- Reconciled personnel costs to payroll records and determined whether the payroll charges were supported by time and effort reports.
- Discussed the objectives of our review with officials from CDC and the State of Massachusetts Department of Public Health to obtain an understanding of specific program regulations applicable to the grants selected for audit.
- Reviewed grant progress reports and evaluations conducted by the Massachusetts Department of Public Health and held discussions with appropriate State and Federal program officers to determine whether the MAC was achieving grant objectives.

We performed our field work at the MAC and OIG offices in Boston, Massachusetts during the period June 2002 through November 2002. We conducted our audit in accordance with generally accepted government auditing standards. On December 17, 2002, we provided the MAC with a copy of our draft report. The MAC's written comments are included as an appendix to this report.

FINDINGS AND RECOMMENDATIONS

The MAC has generally met its grant reporting and performance expectations, but needs to improve its financial management system to ensure grant funds are used for the intended purpose. We specifically found that:

- The MAC allocated personnel costs to federal grants based on budget estimates because it had not developed a system for allocating salaries and wages to federal grants and contracts based on personnel activity reports for each employee, as required by federal regulations. As a result, salaries and wages unrelated to federal grants' activity may have been supported with federal funds.
- Two MAC employees, whose salaries were paid with CDC funds, appeared to be involved in lobbying activities—an unallowable charge under federal regulations. Given that MAC does not have a system to allocate salaries and wages to federal grants based on actual effort spent by employees, it is possible that a portion of the total charges of \$360,000 to the CDC's Community Coalition Development Project may have supported unallowable lobbying activities during the period October 2001 through September 2002. The MAC officials stated that the activities in question pertain to community education and mobilization and, therefore, do not meet the definition of unallowable lobbying activities.

FINDING #1: The MAC Generally Met Its Performance Expectations Under the Two CDC Grants

For both grants reviewed, we determined that the MAC has generally met the performance expectations under the CDC's Community Coalition Development Project as well as the Prevention and Education Cooperative Agreement during the period July 1, 2000 through September 30, 2002. With regard to the Community Coalition Development Project, the MAC reported to the CDC significant progress on the goals and objectives identified in its grant applications. For example, our review of MAC's quarterly reports submitted to the CDC and the minutes of various coalition meetings disclosed that the MAC has 1) Organized and sustained a coalition of local community based organizations; and 2) Provided technical assistance to member organizations and served as a central clearinghouse for information on technical and financial resources. Further, the CDC program officials apprised us that they are generally satisfied with the MAC's performance as the lead agency under this project.

With regard to the CDC's Prevention and Education Cooperative Agreement, our review of performance reviews conducted by the State of Massachusetts Department of Public Health (DPH) disclosed that the MAC has substantially fulfilled its contractual performance goals and objectives. In this respect, the DPH determined that during fiscal year 2001 the MAC

1) served the agreed upon populations; 2) partially met projected client service levels; 3) provided services according to required performance and quality standards and observed all DPH policies; 4) provided services according to the required program models and service elements; and 5) responded appropriately to requested program adjustments and contract conditions.

FINDING #2: Contrary to Federal Requirements, The MAC Allocated Personnel Costs to Federal Grants Based on Budget Estimates Because It Did Not Have a System to Allocate Personnel Costs to Federal Grants Based on Personnel Activity Reports

Criteria – OMB Guidance Requires Costs to be Adequately Documented

The OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, states that, to be allowable, costs must be adequately documented. With regard to personnel costs, the charges must be based on documented payrolls and the distribution of such costs must be supported by personnel activity reports. Specifically, OMB Circular A-122 states:

...a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates...do not qualify as support for charges to awards...c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee...d) The reports must be prepared at least monthly...

Condition - MAC Used Budget Estimates Instead of Actual Effort to Allocate Personnel Costs to Federal Grants

During our period of audit, MAC's allocation of personnel costs to federal grants was not supported by time and effort reports indicating each employee's actual level of effort on federal grants. Instead, the allocation of personnel costs to federal grants was based on original budget estimates. Although it maintained employee time sheets indicating the number of hours worked for each employee, and the salaries charged were supported by time sheets and payroll records, MAC did not have sufficient documentation supporting the allocation of personnel costs to federal grants.

In support of its allocation method, the MAC officials apprised us that, during our period of audit, program managers would meet periodically to discuss whether original budget estimates were accurate. If those budget estimates were no longer accurate, future charges of personnel costs would be adjusted accordingly. The MAC did not provide documentation supporting the meetings.

Cause – MAC Had No System for Allocating Personnel Costs

For the period under audit, the MAC had not established a system for allocating personnel costs to federal grants based on after-the-fact activity reports for each employee, certifying each employee's level of effort on federal grants.

The MAC officials informed us that, subsequent to our audit period, they began implementing a time and effort reporting system that identifies each employee's level of effort on federal grants

and contracts. Although we have not verified the implementation of the revised system, the system appears to be in compliance with OMB Circular A-122.

Effect – Salaries and Wages May Have Been Inappropriately Allocated to Federal Grants

The MAC had no assurance that salaries and wages were allocated to federal grants based on each employee's actual level of time and effort. Therefore, there is a risk that salaries and wages unrelated to federal grants' activity may have been supported with federal funds.

Recommendation:

We are recommending that the MAC:

- 1) Continue its efforts to implement its revised time and effort reporting system and periodically monitor the allocation of personnel costs to federal grants.

Auditee Response

The MAC officials concurred with our finding and stated that MAC will continue to implement a revised time and effort reporting system to monitor the allocation of personnel costs to federal grants. The new system, implemented on July 1, 2002 upon recommendation of the OIG, will be reviewed monthly and revised as necessary.

FINDING #3: Contrary to Federal Guidance, MAC Employees Appeared to Have Participated in Lobbying Activities

Criteria – Federal Guidance Does Not Allow Lobbying Costs to be Charged to Federal Grants

The OMB Circular A-122 states that the following activities are unallowable:

... (4) Any attempt to influence... (ii) the enactment or modification of any pending Federal or State legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign...

Condition - MAC Employees Funded By a CDC Grant Participated In Unallowable Lobbying Activities and Other Direct Costs Supported Those Activities

During the period October 1, 2001 through March 31, 2002, MAC employees, whose salaries were charged to CDC's BHAC program, participated in activities that appeared to involve unallowable lobbying activities. We determined that MAC employees organized a phone-a-thon and participated by having staff and/or clients make telephone calls to state legislators urging them to enact supplemental HIV/AIDS spending bills. These actions were in response to a \$12.2 million reduction in AIDS funding by the State of Massachusetts.

Specifically, we noted that:

- MAC employees whose salaries were charged in whole or in part to the CDC grant served as contact persons for those participating in the phon-a-thon.
- During a CDC funded meeting, phone-a-thon participants engaged in a “role play” to understand what may happen during the calls. In addition, there was discussion on how to encourage clients to participate in the phone-a-thon.

In addition, other direct costs charged to the BHAC program may have supported those activities. Specifically, the MAC used CDC-sponsored BHAC meetings to: (1) discuss MAC’s response to cuts in the state AIDS line item; (2) report on meetings with AIDS lobbyists; and (3) encourage participation in an AIDS Lobby Day at the State House. We acknowledge that it may be appropriate for MAC to utilize other sources of revenue (e.g., other income or contributions) to support lobbying activities. Therefore, only employees whose activities are unrelated to Federal awards should engage in those types of activities, as long as MAC’s accounting system adequately segregates the associated costs.

Cause - The MAC Officials Disagree that These Activities Involve Lobbying

While the MAC officials acknowledge that the subject of the State AIDS line item was included in BHAC meetings, they maintain that the discussions were brief and the activities in question were not “lobbying”. Further, they do not believe that the “phon-a-thon” should be considered lobbying. Instead, they view these activities as “community mobilization activities” intended to educate BHAC members and clients about the legislative process.

Effect – Federal Funds May Have Been Used for Unallowable Activities

It is possible that a portion of the total amount charged to the CDC’s Community Coalition Development Project--\$360,000--may have been used for unallowable lobbying activities, rather than services directly related to primary HIV and other sexually transmitted disease prevention, as required by grant regulations. It is not possible to calculate the amount spent on the activities we viewed as “lobbying” because MAC did not have a system capable of identifying the amount of time and effort spent on specific activities.

Recommendation:

We recommend that the MAC:

- 2) Develop written policies and procedures addressing the types of costs and activities that are unallowable as charges to federal grants.

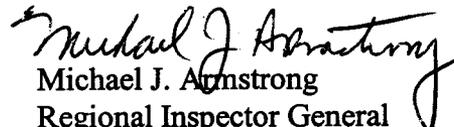
Auditee Response

The MAC officials did not fully concur with our concerns pertaining to lobbying. However, the MAC will develop written policies and procedures to ensure that no unallowable activities are charged to federal grants.

Additional OAS Comments

Although the MAC officials did not fully concur with our finding, the federal regulations cited in this report clearly do not allow the activities in question to be supported with federal funds. However, we believe the development of written policies and procedures addressing lobbying and other unallowable costs and activities will help ensure that no unallowable activities are supported with federal funds.

Sincerely,


Michael J. Armstrong
Regional Inspector General
for Audit Services

APPENDIX

January 14, 2003

RN: A-1-02-10503

APPENDIX

Page 1 of 1

Mr. Michael J. Armstrong
Department of Health & Human Services
Office of the Inspector General
Regional Inspector General for Audit Services
Office of Audit Services, Region I
John F. Kennedy Federal Building
Boston, MA 02203

Dear Mr. Armstrong:

I am writing in response to the Office of Audit Services report entitled, "Audit of HIV/AIDS Activities at the Multicultural AIDS Coalition for the Period July 1, 2000 through September 30, 2002.

We are pleased that the audit conducted by your office found that MAC generally met its performance expectations under two CDC grants. With respect to the two findings related to allocation of personnel costs and unallowable costs, we have a brief response:

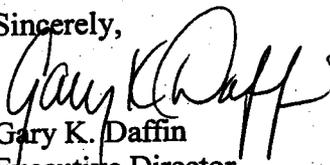
- First, MAC will continue to implement a revised time and effort reporting system to monitor the allocation of personnel costs to federal grants. A new system was implemented on July 1, 2002 upon recommendation of your auditor. This system will be reviewed monthly and revised as necessary.
- Second, while we do not fully concur with the finding related to unallowable activities, MAC will develop written policies and procedures to ensure that no unallowable activities are charged to federal grants.

Please let us know when the final report is issued.

Finally, we would like to convey our appreciation to Steve Sawyer and his staff for their professionalism in conducting the audit at MAC. They made a complex task as painless as it could be.

Please do not hesitate to contact me at (617) 238-2401 if you have questions.

Sincerely,


Gary K. Daffin
Executive Director