



**DEPARTMENT OF HEALTH & HUMAN SERVICES**

**OFFICE OF INSPECTOR GENERAL**

Office of Audit Services  
Region I  
John F. Kennedy Federal Building  
Boston, MA 02203  
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March 14, 2005

Report Number: A-01-04-02501

Mr. Fernando Betancourt  
Chairman  
Community Renewal Team, Inc.  
555 Windsor Street  
Hartford, CT 06120-2418

Dear Mr. Betancourt:

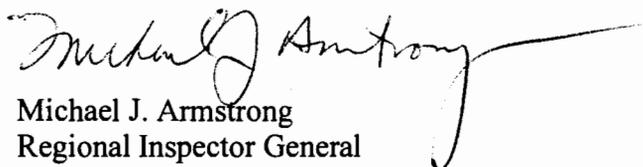
Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' report entitled "Review of Community Renewal Team, Inc, Compensation Practices for Executives and Teachers." A copy of this report will be forwarded to the action official noted below for his 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 the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5).

If you have any questions or comments about this report, please do not hesitate to call me or John Sullivan, Senior Auditor, at 617-565-4808 or through e-mail at [john.sullivan@oig.hhs.gov](mailto:john.sullivan@oig.hhs.gov). To facilitate identification, please refer to Report Number A-01-04-02501 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**

Mr. Hugh Galligan  
Regional Administrator  
Administration for Children and Families  
JFK Federal Building, Room 2000  
Boston, Massachusetts 02230

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF COMMUNITY RENEWAL  
TEAM, INC. COMPENSATION  
PRACTICES FOR EXECUTIVES AND  
TEACHERS**



**MARCH 2005  
CIN: A-01-04-02501**

# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

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## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



# **EXECUTIVE SUMMARY**

## **BACKGROUND**

### **Head Start**

The Head Start program was enacted under Title V of the Economic Opportunity Act of 1964 and is administered by the Administration for Children and Families (ACF) within the Department of Health and Human Services (DHHS). Its purpose is to: (1) promote school readiness by enhancing the social and cognitive development of low-income children through the provision of comprehensive health, educational, nutritional, social, and other services; and (2) involve parents in their children's learning and help parents make progress toward their educational, literacy, and employment goals. To carry out the program, grants are awarded to community-based non-profit organizations and school systems.

Following news articles and congressional inquiries relating to excessive executive compensation at some Head Start agencies, Federal Head Start officials asked the Office of Inspector General (OIG) to initiate a review of compensation paid to Head Start agencies. We selected nine agencies to review, including the Community Renewal Team, Incorporated (CRT).

### **Community Renewal Team, Incorporated**

CRT was founded in 1963 and is a community action program (CAP) agency servicing people and families throughout the Connecticut River Valley. CRT has over 700 employees, 10 percent of whom are teachers, and provides many services including Head Start, Meals on Wheels, alternatives to incarceration, supportive housing and shelter, and homebuyer and energy assistance to families within 59 Connecticut cities and towns.

Head Start funding ranged from 16 to 21 percent of CRT's \$51 million to \$59 million budget during the years 2000, 2001 and 2002. Total Federal funding, including Head Start, averaged 61 percent per year, and State and local funding averaged 25 percent per year.

## **OBJECTIVE**

The objective of our audit was to determine whether CRT's compensation and related expenses for five key executives and teachers were reasonable and consistent with Federal requirements and guidelines. The five key executives included the Chief Executive Officer, the next three highest paid executives and the Head Start Director.

## **SUMMARY OF FINDINGS**

Our analysis of compensation and related expenses for five CRT executives from 2000 to 2002 noted:

- total compensation paid to three of the five key executives exceeded the average rate of compensation paid to the Chief Executive Officers (CEO) of Head Start agencies in

Connecticut by \$562,728 from 2000 to 2002. When compared to similar positions at a non-profit community action program in New England, which on average, received 47 percent more in revenues each year, the net amount paid to the five CRT executives exceeded their counterparts by \$457,809. Federal regulations provide that Head Start employees may not receive compensation in excess of the average rate of compensation paid in the area for comparable services.

- CRT did not provide written evidence that its Board of Directors (the Board) followed established procedures in approving the CEO's compensation level. Further, CRT did not obtain all required signatures for approving the other four executives' compensation levels. CRT policies and procedures require a formal evaluation process to establish salary.
- CRT did not provide adequate documentation to show that \$177,867 in travel, restaurant, and other credit card charges incurred by four of the executives and charged to an indirect expense account complied with Federal requirements. OMB Circular A-122 states that to be allowable costs must be reasonable and adequately documented. The Federal portion was \$57,483, which included \$15,823 in Head Start funds.

We found that CRT could not provide adequate documentation demonstrating that internal control procedures for approving executive compensation were followed. Our review of requested expenses disclosed that adequate internal control procedures had not been established, and the limited procedures in place had not been followed. As a result, there was less than reasonable assurance that Head Start expenditures were reasonable and consistent with Federal requirements.

We found no instances of non-compliance that teacher's compensation was both reasonable and consistent with Federal requirements..

## **RECOMMENDATIONS**

We recommend that CRT:

- establish controls to ensure that executive compensation meets the requirements of §653 of the Head Start Act and any future clarification, guidance, or requirements set out by ACF;
- implement controls to ensure that the Board and other CRT executives comply with CRT's approval process for CEO compensation and other executive salary increases;
- document in the minutes of the meetings the approval process for CEO compensation including who voted on the contract and who recused themselves from voting on matters that appear to be a conflict of interest;
- implement policies and procedures, including adequate controls for credit card purchases by officers to ensure that:
  - purchases are approved in advance and are only for business expenses,
  - purchases do not exceed an established threshold, and

- source documentation is retained for all purchases, including charges for more than one individual on a single card.
- improve procedures for ensuring that indirect costs claimed for reimbursement do not include unallowable or unreasonable items; and
- refund \$57,483 in unallowable business related expenses allocated to Head Start and other Federal programs.

CRT concurred with our recommendations, including the recommendation to refund the Federal share of questioned costs, adjusted by any of the additional documentation provided. However, CRT did not agree with the sources of information we used for salary comparison and believed secondary evidence, such as affidavits and other documents dated after the audit period is sufficient, regardless of our requests for primary evidence. CRT's written comments are included in the APPENDIX to this report.

We believe the facts and findings in our report are relevant and adequately document the need to improve internal control procedures for Executive compensation and document the use of Federal funds.

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# INTRODUCTION

## BACKGROUND

### Head Start

The Head Start program was enacted under Title V of the Economic Opportunity Act of 1964 and is administered by ACF within the DHHS. Its purpose is to: (1) promote school readiness by enhancing the social and cognitive development of low-income children through the provision of comprehensive health, educational, nutritional, social, and other services; and (2) involve parents in their children's learning and help parents make progress toward their educational, literacy, and employment goals. To carry out the program, grants are awarded to community-based non-profit organizations and school systems.

Following news articles and congressional inquiries relating to excessive executive compensation at some Head Start agencies, Federal Head Start officials asked the Office of Inspector General (OIG) to initiate a review of compensation paid to Head Start agencies. We selected nine agencies to review, including the Community Renewal Team, Incorporated

### Community Renewal Team, Incorporated

CRT was founded in 1963 and is a community action program (CAP) agency servicing people and families throughout the Connecticut River Valley. CRT has over 700 employees, including about 70 teachers, and provides many services including Head Start, Meals on Wheels, alternatives to incarceration, supportive housing and shelter, and homebuyer and energy assistance to families within 59 Connecticut cities and towns.

Head Start funding ranged from 16 to 21 percent of \$51 million to \$59 million in CRT revenues during the years 2000, 2001 and 2002. Total Federal funding, including Head Start, averaged 61 percent per year, and State and local funding averaged 25 percent per year.

## OBJECTIVE, SCOPE, AND METHODOLOGY

### Objective

The objective of our audit was to determine whether CRT's compensation and related expenses for five key executives and for teachers were reasonable and consistent with Federal requirements and guidelines. The five key executives included the Chief Executive Officer (CEO), the next three highest paid executives and the Head Start Director.

### Scope

Our review covered CRT's grant years 2000, 2001 and 2002 (January 1, 2000 through December 31, 2002). The five key executives selected for testing included the Head Start Director and four of the highest paid employees who received some or all of their compensation from Head Start funding.

For the review, we defined compensation as anything that increased the personal assets of the individual, such as salary and wages, fringe benefits, bonuses, retirement, and other related expenses.

We did not review the overall internal control structure of CRT for the Head Start program. Our review of internal controls was limited to those controls related to the approval of compensation packages and indirect costs incurred by the executives..

We performed our on-site fieldwork at the Region I ACF office located in Boston, Massachusetts; CRT's office located in Hartford, Connecticut; and the Connecticut Department of Social Services (Department) located in Hartford, Connecticut.

## **Methodology**

To accomplish our objectives we:

- reviewed Federal regulations relating to the Head Start program and cost principles for non-profit organizations;
- interviewed Region I ACF, CRT and Department officials;
- reviewed CRT organizational charts, payroll journals, and billing/invoice statements to determine the total compensation and funding sources for the five key executives;
- obtained executive compensation information from other similar organizations for comparison purposes;
- reviewed CRT policies, procedures, and board of director minutes of the meeting to determine the compensation approval process;
- reviewed general ledger and other accounting records to identify and assess other related expenses; and
- reviewed teachers' wages to determine if cost of living adjustment and quality improvement funds were used in accordance with Head Start program instructions.

Our audit was conducted in accordance with generally accepted government auditing standards.

## FINDINGS AND RECOMMENDATIONS

Our analysis of compensation and related expenses for five CRT executives from 2000 to 2002 noted:

- total compensation paid to three of the five key executives exceeded the average rate of compensation paid to the Chief Executive Officers of Head Start agencies in Connecticut by \$562,728 from 2000 to 2002. When compared to similar positions at a non-profit community action agency in New England (the CAP Agency), which on average, received 47 percent more in revenues each year, the net amount paid to the five CRT executives exceeded their counterparts by \$457,809. Federal regulations provide that Head Start employees may not receive compensation in excess of the average rate of compensation paid in the area for comparable services;
- CRT did not provide written evidence that its Board of Directors (the Board) followed established procedures in approving the CEO's compensation level. Further, CRT did not obtain all required signatures for approving the other four executives' compensation levels. CRT policies and procedures require a formal evaluation process to establish salary; and
- CRT did not provide adequate documentation to show that \$177,867 in travel, restaurant, and other credit card charges incurred by four of the executives and charged to an indirect expense account complied with Federal requirements. OMB Circular A-122 states that to be allowable costs must be reasonable and adequately documented. The Federal portion was \$57,483, which included \$15,823 in Head Start funds.

We found that CRT could not provide adequate documentation demonstrating that internal control procedures for approving executive compensation were followed. Our review of requested expenses disclosed that adequate internal control procedures had not been established, and the limited procedures in place had not been followed. As a result, there was less than reasonable assurance that Head Start expenditures were reasonable and consistent with Federal requirements.

We found no instances of non-compliance that teacher's compensation was both reasonable and consistent with Federal requirements..

CRT concurred with our recommendations, including the recommendation to refund the Federal share of questioned costs, adjusted by any of the additional documentation provided. CRT did not agree with the sources of information we used for salary comparison and believed that secondary evidence, such as affidavits and other documents dated after the audit period is sufficient, regardless of our requests for primary evidence. CRT's written comments are included in the APPENDIX to this report.

We believe the facts and findings in our report are relevant and adequately document the need to improve internal control procedures for Executive compensation and document the use of Federal funds.

## **CRT EXECUTIVE COMPENSATION EXCEEDED THE AVERAGE OF COMMUNITY ACTION PROGRAM AGENCIES IN SAME AREA**

### **CRITERIA**

Section §653 of the Head Start Act (42 U.S.C. 9848) provides that Head Start employees may not receive compensation:

. . . in excess of the average rate of compensation paid in the area where the program is carried out to a substantial number of persons providing substantially comparable services or in excess of the average rate of compensation paid to a substantial number of the persons providing substantially comparable services in the area of the person’s immediately preceding employment. . . .

### **CONDITION**

Total compensation paid to three of the five key executives exceeded the average rate of compensation paid to the CEOs of Head Start agencies in Connecticut by \$562,728 from 2000 to 2002. When compared to similar positions at a non-profit CAP agency (the CAP Agency) in New England, which on average, received 47 percent more in revenues each year, the net amount paid to the five CRT executives exceeded their counterparts by \$457,809.

### **Average Compensation Paid to CEOs in Connecticut**

According to compensation data from the salary survey conducted by the Head Start Bureau in 2004, CEO compensation for 16 agencies with Head Start programs in Connecticut averaged \$110,917 in 2000, \$114,126 in 2001, and \$126,817 in 2002<sup>1</sup>. Our comparison of compensation for CRT’s five executives to the 3-year average for CEO compensation in Connecticut is presented in the chart below:

<b>Position</b>	<b>CRT</b>	<b>CEO 3-Year Average</b>	<b>Difference</b>	<b>Percent of CT CEOs</b>
CEO/President	\$924,452	\$351,860	\$572,592	263 %
Executive Vice President	417,900	351,860	66,040	119
Vice President	344,463	351,860	(7,397)	98
Vice President – Administration	423,489	351,860	71,629	120
Head Start Director	211,724	351,860	(140,136)	60
<b>Total</b>	<b>\$2,322,028</b>	<b>\$1,759,300</b>	<b>\$562,728</b>	<b>132 %</b>

<sup>1</sup> For the 16 Connecticut agencies, three agencies did not have salary information for 2000 and two agencies did not have this information for 2001. The denominators were revised accordingly when calculating the 3-year average.

## Compensation Paid to a Larger CAP Agency

We also compared compensation reported by CRT on Internal Revenue Service (IRS) Form 990 plus other compensation in CRT's records to compensation reported by a larger CAP Agency on IRS Form 990. Like CRT, the CAP Agency provides antipoverty programs to low-income individuals and families. The CAP Agency is located in Boston, Massachusetts, is the largest independent human services agency in New England, assists more than 100,000 clients, and has about 1,000 employees. When compared to CRT, with over 700 employees, the CAP Agency:

- received on average, 47 percent more than CRT, in revenues and funding each year;
- received between 102 to 135 percent more in Head Start funding than CRT;
- serviced between 36 to 59 percent more Head Start students than CRT;
- increased Head Start enrollment by 3 percent, while CRT's enrollment decreased by 14 percent; and
- experienced operating surpluses in all three years, while CRT experienced an operating loss for one of the years and a gain for the remaining two years.

Upon comparison, CRT's CEO received up to 171 percent more in annual compensation than the CEO for the CAP Agency. A significant portion of the difference in the CEO's compensation was attributable to a higher salary, a \$24,000 annual expense account with no apparent controls over expenditures, an annuity, a life insurance policy for the CEO and his family, and the use of an automobile.

Position	CRT	CAP Agency	Difference	Percent of CAP Agency
CEO/President	\$924,452	\$541,222	\$383,230	171%
Executive Vice President	\$417,900	\$472,054	(\$54,154)	89
Vice President	\$344,463	\$346,910	(\$2,447)	99
Vice President – Administration	\$423,489	\$362,832	\$60,657	117
Head Start Director	\$211,724	\$141,201	\$70,523	150
Total	\$2,322,028	\$1,864,219	\$457,809 <sup>2</sup>	125%

Total executive compensation for CRT was \$457,809 more than the CAP Agency for the years 2000 through 2002. Head Start accounted for \$39,496 of the \$457,809 in excess compensation.

<sup>2</sup> The \$457,809 difference represents (1) \$160,160 in excess compensation, including a \$24,000 annual expense account, received by CRT's CEO in comparison to the CAP Agency's CEO compensation, (2) \$43,286 excess compensation received by CRT's executives in comparison to the CAP Agency's executives compensation, and (3) \$254,363 in CEO and executive benefits not reported to the IRS on Form 990. The benefits not reported include annuities, life insurance premiums, health and dental benefits, deferred compensation and the use of an automobile that will be signed over to the CEO upon retirement. In addition, the CEO's personal services contract allows two paid trips per year for the CEO's spouse. CRT did not provide any supporting documentation of the number or location of the trips taken by the CEO's spouse.

## **CAUSE**

CRT's internal control procedures for executive compensation and related expenses were either not established or not followed.

## **EFFECT**

As a result, there was less than reasonable assurance that CRT compensation did not exceed the average for other comparable organizations as required by Federal requirements.

## **RECOMMENDATION**

We recommend that CRT establish controls to ensure that executive compensation meets the requirements of §653 of the Head Start Act and any future clarification, guidance, or requirements set out by ACF.

## **AUDITEE COMMENTS**

CRT concurred with our recommendation. In 2004, CRT informed us that they conducted a wage comparability survey that meets the requirements of Section 653 of the Head Start Act, as well as other Federal requirements. CRT will periodically review this study to ensure that compensation paid to all of its executives is based on current wage data. Pursuant to CRT policy, changes to executive compensation will be presented to the Board of Trustees for review and approval.

While CRT agreed with our recommendation, they disagreed with some aspects of our finding. Specifically, CRT states that (1) compensation amounts were not accurate; (2) information used for salary comparisons were not comparable; (3) only Head Start compensation should have been used to compare salaries instead of total compensation; and (4) audited compensation data was compared with unaudited data.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Head Start regulations provide a benchmark for the amount of compensation an employee can receive and the IRS requires a salary survey for executive compensation. CRT did not have procedures in place to ensure that they met these Federal requirements. Below addresses each point raised by CRT.

### **(1) Compensation Amounts Were Not Accurate**

We adjusted our comparison of CRT compensation to CEO compensation for 16 agencies with Head Start programs in Connecticut by changing the denominators for the 3-year averages from the total number of agencies to the number of agencies that provided salary information.

## **(2) Information Used For Salary Comparisons Were Not Comparable**

Section §653 of the Head Start Act (42 U.S.C. 9848) defines the benchmark for compensation as the average rate of compensation paid in the area for comparable services. The 16 agencies used to calculate the CEO 3-year average provide similar services as CRT. Because our results identified large differences, we used a large CAP Agency to compare compensation. Other methods of comparison, such as compensation per child as suggested by CRT, were not considered since Head Start regulations specifically focus on the average rate of compensation.

## **(3) Only Head Start Compensation Should Have Been Used To Compare Salaries Instead of Compensation**

In response to congressional concerns, the Head Start Bureau requested that the Office of Inspector General conduct a review of the compensation practices of selected agencies providing Head Start services. As part of our audit, we reviewed the (a) total compensation packages; (b) funding sources; (c) approval process for the compensation practices; and (d) basis of any wage study performed. A review of only Head Start compensation would not have satisfied both the Head Start Bureau and Congress.

## **(4) Audited Compensation Data Was Compared With Unaudited Data**

Because CRT did not conduct a wage compensation survey during the years of our audit period, we applied analytical procedures with the best available information when conducting our comparison of executive compensation. This approach is consistent with Statement on Auditing Standards Number 56, which requires the use of analytical procedures in the overall review stages of all audits.

Analytical procedures are an important part of the audit process and consist of evaluations of financial information made by plausible relationships among financial data. A basic premise underlying the application of analytical procedures is that plausible relationships between data may reasonably be expected to exist and continue in the absence to the contrary. Data may or may not be readily available to develop expectations for some assertions. The auditor obtains assurance from analytical procedures based on the consistency with the recorded amounts with expectations developed from data derived from other sources.

While CRT did not have data such as an executive wage compensation survey readily available, we used data derived from other sources to analyze CRT's executive compensation. CRT's audited data and the large CAP Agency's unaudited data were consistent in that each agency publicly disclosed the recorded amounts of cash and non-cash compensation for officers, directors, trustees and key employees on IRS Form 990, Section V.

## **EVIDENCE PROVIDED BY CRT DOES NOT DEMONSTRATE PROPER APPROVALS FOR EXECUTIVE COMPENSATION**

### **CRITERIA**

#### **CRT Policies and Procedures**

CRT's policies and procedures for approving the CEO compensation arrangement include the following process for the Board:

- the Chairman of the Executive Board of CRT provides evaluation documents to be filled out by the Board members;
- the Board Chairman compiles a composite of the evaluations;
- the Chairman discusses the composite evaluation with the Board and negotiates the contract with the CEO;
- the Chairman discusses the changes to the contract with the Board, and the Board must vote to approve those changes;
- the Chairman instructs the general counsel to prepare an agreement to be executed by CRT and the CEO; and
- the employment agreement is prepared and reviewed by the Board through its Chairman, and the Chairman and CEO execute the contract.

For executives other than the CEO, related policies and procedures require CRT to use annual performance reviews and the financial position of CRT for salary increases as follows:

- executives of the Agency, in conjunction with the Finance Director, will annually determine the annual budget for salary increases for all employees;
- once an evaluation has been completed and submitted to the Human Resources Director for review, it shall be the responsibility of the supervisor or manager to submit an in-service change form; and
- an authorized representative from the Human Resources Department, the Finance Department, and the employees Department Head, must sign the in-service change form.

#### **Internal Revenue Service (IRS) Regulations For Non-Profit Organizations**

Head Start does not require non-profit entities applying for Federal Financial Assistance to identify the specific compensation packages for individuals within their organizations. However, the IRS requires non-profit entities to show all forms of cash and non-cash compensation, whether paid currently or deferred, for officers, directors, trustees and key employees on Form 990, Section V.

As part of compensation, non-profit entities are required to report items such as salaries, fees, bonuses, deferred compensation, welfare benefit plans, taxable and nontaxable fringe benefits, and personal use of automobiles. Payments under a compensation arrangement are presumed to be reasonable if the:

- transaction is approved by an authorized body of the organization which is composed of individuals who did not have a conflict of interest concerning the transaction;
- authorized body obtained and relied upon appropriate data as to comparability prior to making the determination; and
- authorized body adequately documented the basis for its determination concurrently with the determination.

IRS regulations require that Form 990 is complete and accurate and fully describes the organization's programs and accomplishments.

## **CONDITION**

Monthly Board of Director minutes of the meeting and other related documents did not demonstrate that CRT followed procedures for approving the CEO's contract or that CRT obtained all required approvals for increases in salaries for the other four executives.

### **Approving the CEO's Contract**

CRT did not provide evidence that the:

- previous chairman<sup>3</sup> compiled a composite of the evaluations;
- previous chairman discussed the composite evaluations with the Board;
- previous chairman discussed the negotiated changes to the contract with the Board;
- Board voted to approve any negotiated changes;
- CEO, who is a member of the Executive Board, recused himself from the contract approval process;
- Board obtained and relied upon an appropriate compensation study; and
- Board was involved in the contract approval process with the exception of the Chairman.

### **Approving Other Executive Compensation**

CRT obtained the required signatures from the Executive's Department Head and the Human Resource Manager for ten out of ten salary increases for the four remaining executives. However, five out of ten salary increases for all three years for the four remaining executives did not have the required signatures from the Finance Department.

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<sup>3</sup> CRT's last two Chairmen did not participate in negotiating the CEO's contract during our audit period. They assumed their Chairmanship in November 2002 and November 2004.

## **CAUSE**

CRT did not:

- establish a formal process to ensure that the Executive Board complied with internal procedures for approving the CEO's compensation package;
- have sufficient procedures in place to ensure that key events, such as approving CEO compensation and dealing with matters that appear to be a conflict of interest, are adequately documented in the minutes of the meeting for the Executive Board; and
- consistently follow procedures that were in place for approving the increases in salaries for the other four executives.

CRT provided recent documents that the Board of Directors is currently discussing the CEO's contract. Further, the Board of Director minutes of the meeting note that the CEO recused himself from the current contract process.

## **EFFECT**

Without documentation evidencing that executive compensation was authorized in accordance with CRT policies and procedures, there is less than reasonable assurance that CRT negotiated a fair, equitable, compensation package for the CEO's contract and for increases in salaries for the four other executives.

## **RECOMMENDATIONS**

We recommend that CRT:

- implement controls to ensure that the Board and other CRT executives comply with CRT's approval process for CEO compensation and other executive salary increases; and
- document in the minutes of the meetings the approval process for CEO compensation including who voted on the contract and who recused themselves from voting on matters that would be a conflict of interest.

## **AUDITEE COMMENTS**

CRT concurred with both recommendations and stated they have implemented both in their entirety. However, CRT stated they provided substantial documentation that it's Board of Directors followed established procedures in approving CEO compensation. This includes documents prepared during the audit period, as well as affidavits and signed statements from members of the Board and CRT's outside General Counsel.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

While CRT provided additional information, they did not demonstrate that the Board of Directors was involved in approving CEO compensation. Instead, primary evidence suggested that only the CEO, Chairman of the Board, CRT's attorney, and a select few individuals were involved in the contract negotiation.

Additional documentation does indicate that the Executive Board Members received instructions to evaluate the CEO. However, CRT has acknowledged that it did not retain certain confidential performance review worksheets for the 2000 contract negotiations. Subsequent documentation also discusses that four Board members were informed of key monetary conditions of the contract, but CRT did not provide any documentation that the information was shared with the Board of Directors. The Minutes of the Meeting for the Board, Executive Board, and Finance Committee do not include a discussion and vote on CEO compensation.

Further, three out of thirty five Board Members provided affidavits that they participated in the CEO approval process, but the affidavits do not provide any specific dates as to when each step in the process was completed. The Chairman of the Board for the period November 2002 through November 2004 was a member of the Executive Board when the CEO's 2000 contract was approved. The former Chairman did not participate in the approval process. The former Chairman only saw the CEO's contract when it came up for renewal during his tenure in 2004.

Without sufficient documentary evidence that executive compensation was authorized in accordance with CRT policies and procedures, there is less than reasonable assurance that CRT negotiated a fair, equitable, compensation package for the CEO's contract

## **DOCUMENTS PROVIDED BY CRT DO NOT DISTINGUISH CREDIT CARD CHARGES AS PERSONAL OR BUSINESS RELATED EXPENSES**

### **CRITERIA**

**Allowable Costs** - OMB Circular A-122 states to be allowable, a cost must be reasonable for the performance of the award and must be adequately documented.

**Reasonable Costs** - OMB Circular A-122 A.3 states a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.... In determining the reasonableness of a given cost, consideration shall be given to: "... whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government."

**Allocating Costs** - OMB Circular A-122 states that a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.

Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

## **CONDITION**

CRT did not provide adequate documentation to show that \$177,867 in travel, restaurant, and other credit card charges incurred by four executives and charged to an indirect expense account was in accordance with Federal requirements. Specifically, the executives made 1,076 charges from FY 2000 – FY 2002 including:

- 87 travel charges that appeared to be excessive. While CRT could only provide limited supporting documents, the travel destinations often coincided with Head Start and other training related conferences. However, the travel charges included executive suites or days beyond the conference dates and time allotted for travel.
- 223 travel charges not adequately documented, including airline charges for non-CRT employees.
- 497 local restaurant charges averaging \$97 per luncheon. The number of luncheons averaged about four times per week whereby seven percent of the attendees included only CRT staff. Supporting documentation provided did not contain sufficient information regarding the:
  - necessity for having the luncheons;
  - reasonableness of the restaurant charges given the number of persons in attendance;
  - issues discussed;
  - number and responsibilities of participants; and
  - availability of alternative meeting facilities such as the executive or other conference rooms.
- 245 unusual or inadequately documented miscellaneous charges, including:
  - officer and staff gifts from wine and teddy bear stores;
  - flowers;
  - items from miscellaneous department stores;
  - automobile repairs;
  - a wedding gift;
  - beverages from a liquor store for a Board meeting; and
  - CEO golf club greens fees.
- 24 charges for exclusive club memberships for two executives.

## **CAUSE**

CRT did not have a process in place to ensure that executive credit card purchases for travel, conferences, and other related activity charged to Federal programs were:

- approved in advance;
- substantiated by sufficient supporting documentation; and
- for legitimate business purposes.

CRT did not have a process in place to ensure that indirect costs claimed for reimbursement did not include unallowable or unreasonable items.

CRT stated they have implemented the Federal requirements for documentation of business expenses effective January 1, 2004. This procedure will ensure that indirect costs claimed for reimbursement do not include unallowable, unreasonable or otherwise ineligible items. In addition, CRT established a separate fund for all expenses deemed unallowable, unreasonable or lacking support. Such expenses will be funded through CRT's unrestricted revenues and will not be included in indirect costs.

## **EFFECT**

CRT inappropriately claimed \$177,867 of \$269,562 in the following charges when claiming indirect costs for Federal reimbursement from FY 2000 through FY 2002.

- \$36,341 in travel related charges that exceeded the Federal per diem rates. This includes any extended time beyond reasonable travel arrangements;
- \$61,000 in travel related charges not adequately documented;
- \$48,244 in local restaurant charges;
- \$25,555 in unusual or inadequately documented charges; and
- \$6,727 in exclusive club memberships.

The Federal portion of the \$177,867 was \$57,483, which included \$15,823 in Head Start funds.

## **RECOMMENDATIONS**

We recommend that CRT:

- implement policies and procedures, including adequate controls for credit card purchases by officers to ensure that:
  - purchases are approved in advance and are only for business expenses,
  - purchases do not exceed an established threshold, and

- source documentation is retained for all purchases, including charges for more than one individual on a single card.
- improve procedures for ensuring that indirect costs claimed for reimbursement do not include unallowable or unreasonable items; and
- refund \$57,483 in unallowable business related expenses allocated to Head Start and other Federal programs.

## **AUDITEE COMMENTS**

CRT concurred with the first two recommendations. In regards to our third recommendation, CRT does not agree to refund the full \$65,569. However, CRT agrees to refund that portion allocated to Head Start and other Federal programs where adequate documentation is lacking pursuant to Federal requirements.

CRT also believes that it followed their internal controls, policies and procedures regarding agency related employee credit card expenses that included review by CRT's Accounts Payable Department on a monthly basis. This approval process by the Accounts Payable Department included final review and approval by the accounts payable supervisor and CRT's internal auditor.

CRT also believes various credit card charges are allowable OMB Circular A-122, Attachment B, "Employee Morales, Health and Welfare Costs and Credits". However, they will no longer include such expenses in Federal indirect cost calculations.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

CRT did not follow their internal controls, policies and procedures regarding agency related employee credit card expenses. CRT limited travel expenses to federal per diem rates in its travel policies for all departments. However, we identified 87 of 208 travel expenditure charges exceeded the Federal per diem. CRT did not provide any documentation that the accounts payable supervisor and internal auditor confirmed and authorized the transactions exceeding the Federal per diems.

CRT's travel policies also required that a fully completed "CRT Request for Authorization for Official Travel" form (Travel form) be completed. The Travel form required separate approvals from an employee's Department Head, the Executive Office, and the Finance Office. CRT did not provide any Travel forms to substantiate 310 travel related charges.

While CRT will no longer claim charges such as club memberships, flowers, staff gifts, wedding gifts, alcoholic beverages, green fees, it infers that these charges were allowable under OMB Circular A-122 "Employee Morale, Health and Welfare Costs and Credits". However, Circular A-122 also provides guidance on reasonable costs. Considering their responsibilities to the Federal government, CRT should have acted with prudence and not included these charges in their indirect cost calculations.

Since the issuance of the draft report, CRT provided additional documents for travel, restaurant, and other credit card charges. Based on the additional documents, we revised the figures in our draft report.

## **OTHER MATTERS**

### **Unobligated Grant Funds and Interest Income Used to Fund Executive Compensation**

As part of their funding sources for executive salary, excluding the Head Start Director, CRT used \$938,233 in unobligated grant funds and \$585,432 in interest income.

### **Unobligated Fund Balances**

CRT accumulated the unobligated funds for 51 grants over a 21-year period. Grant projects included crisis intervention, emergency shelter, and after school programs. During FY 2002, Connecticut forgave \$820,599 of the \$938,233 in unobligated grant funds. CRT used this amount to cover executive salaries and other indirect costs. Further, during FY 2001, CRT utilized \$117,634 in unobligated grant funds to cover executive salaries and other indirect costs. Connecticut officials were unaware of the \$117,634 in unobligated grant funds. We believe that CRT should have returned the unobligated fund balances to the Federal Government, via Connecticut. To ensure that unobligated fund balances are not forgiven in the future without Federal approval, we plan to discuss this matter with Connecticut and appropriate Federal officials concerning corrective action.

## **AUDITEE COMMENTS**

CRT responded that the majority of the debt was assumed in connection with the merger with the Community Action for Greater Middlesex County (CAGMC), and was a non-cash liability. No CRT executive benefited from the forgiveness of the CAGMC debt.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Both CRT and CAGMC exhibited internal control weaknesses for returning funds to the State. According to 45, Code of Federal Regulations (CFR), § 74.28, "...where a funding period is specified, a recipient may charge to the award only allowable costs resulting from obligations incurred during a funding period..."

Closeout procedures CFR, § 74.71 add that recipients should submit, within 90 calendar days after the completion of the award, all financial, performance and other reports as required by the terms and conditions of the award. The recipient should promptly refund any balances of unobligated cash that the U.S. Department of Health and Human Services has advanced or paid and is not authorized to be retained by the recipient for other projects.

We agree that CRT assumed debt in connection with the CAGMC merger, but CRT accounted for \$484,973 (51%) of the unobligated funds and CAGMC's portion totaled \$453,260 (49%).

## **Interest Income**

CRT earned \$585,432 in interest income from January 2000 through December 2002. CRT officials informed us that interest income was not earned on Head Start funds and we could not adequately distinguish from CRT's accounting records the amount of interest earned on Federal funds from other Federal programs. Using the percentage of Federal funds to all funds used to cover executive compensation and other indirect costs, as much as \$110,991 in interest income could have been earned on Federal funds other than Head Start. Ten percent of the interest income related to funds provided by HHS.

## **AUDITEE COMMENTS**

CRT responded that they maximized the use of its funds through interest bearing accounts. Further, the OIG audit work papers do not support the contention that interest was earned on any Federal funds.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Our review of the internal control environment for interest disclosed that CRT's accounting system cannot distinguish interest earned on Federal funds from interest earned on non-Federal funds. Specifically, CRT's Chief Financial Officer stated the agency does not segregate Federal programs funds in its bank accounts. Rather, the funds were co-mingled and there is no accounting control to return the interest income to the appropriate Federal agency. Because CRT did not establish any accounting controls segregating federal income, CRT was unable to provide the OIG any documentary evidence determining the Federal share of the \$585,432 in interest income.

# **APPENDIX**

Community Renewal Team, Inc.

555 Windsor Street  
Hartford, Connecticut  
06120-2418

Tel: 860.560.5600  
Fax: 860.527.3305  
www.crtct.org



Paul C. Puzzo, President/CEO

January 31, 2005

Mr. Michael J. Armstrong  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of Audit Services  
Region 1, John F. Kennedy Federal Building  
Boston, Massachusetts 02203

Re: Report No. A-01-04-02501

Dear Mr. Armstrong:

Please find enclosed Community Renewal Team, Inc.'s response to Report Number A-01-04-02501.

We have attempted to provide an itemized response to all the issues raised and findings made by your office in its Draft Report. As stated earlier, we understand the importance of such audits and the benefit to our organization from such outside reviews. It is our intention to provide your office with the necessary information to accurately reflect the state of affairs at our agency. To that end, we have provided you with documentation that substantiates the executive compensation issue. Additionally, we have also provided necessary proof and information on other issues addressed by your office. All relevant corrective action has been implemented as needed.

We take great pride in our heritage as a long standing Head Start Agency and in our unwavering commitment to the children and families that we serve.

Please call us if we can be of any further assistance.

Very truly yours,

A handwritten signature in black ink, appearing to read "Fernando Betancourt", written in a cursive style.

Fernando Betancourt, Chairman  
Board of Trustees

Enclosure

393603

**COMMUNITY RENEWAL TEAM, INC.**

**Formal Response to DHHS OIG Report  
Number A-01-04-02501**

**January, 2005**

Community Renewal Team, Inc. (CRT)

Formal Response to DHHS Report Number A-01-04-02501

**Finding No. 1:** *Total compensation paid to four of the five key executives exceeded the average rate of compensation paid to chief executive officers at Head Start agencies in Connecticut by \$738,043 from 2000-2002. When compared to a non-profit CAP agency in New England, the net amount paid to the five CRT executives exceeded their counterparts by \$457,809.*

**CRT Response: Do Not Concur**

CRT disagrees with the finding because (1) the compensation amounts are not accurate; (2) the agencies used for comparison are not comparable; and (3) the draft report compares audited compensation information for CRT with unaudited compensation information for the comparison agencies.

In determining whether CRT's executive compensation exceeds the rate of compensation allowable under Section 653 of the Head Start Act, the compensation must be compared to the rate of compensation paid "in the area where the program is carried out to a substantial number of persons providing substantially comparable services." 42 U.S.C. § 9848. Comparing **total** executive compensation rather than the Head Start funded portion is not a reliable method to assess Head Start executive compensation, where CRT, as a whole, is substantially different from the organizations used for comparison. For example, some of the agencies used in the comparison are single program agencies, administer only the Head Start program, and its executives receive 100% of their compensation directly from Head Start. On the other hand, other than the Head Start director, Head Start funded only 16 to 21 percent of CRT executive compensation during the audit period.

Compensation Figures Used

CRT disagrees with the compensation amount imputed to CRT's President/CEO for both comparisons because it is overstated by \$184,020. CRT also questions the compensation amount reported in the draft report for the 16 Connecticut Head Start agencies' CEO because it is understated by \$175,315 due to a calculation error. Exhibit 1 provides a detailed analysis of these compensation figures.

Comparison With Other Agencies

CRT does not agree that the Head Start agencies used for comparison are organizations comparable to CRT for purposes of executive compensation. CRT operates more programs

(48) of greater complexity in a larger number of communities requiring a more diverse skill set and broader management acumen and experience than the other Head Start organizations. Exhibit 2 details the width and breathe of CRT programs. Exhibit 3 demonstrates why the non-Connecticut Head Start agency is not comparable for assessing executive compensation.

An alternative analysis of this data that is more relevant to the underlying purpose of ensuring that federal funds are used wisely is to compare executive compensation on a per child served basis. As demonstrated in Exhibit 4, using total compensation figures, CRT's President/CEO is compensated at a rate of \$316.44 per federal Head Start child served. For the eleven Connecticut agencies including CRT for which data was available, CRT is ranked fourth lowest in CEO compensation on a per child basis.

Another approach to executive compensation analysis is to compare the percentage of executive compensation to total funding. For 6 of the 16 Connecticut Head Start agencies for which the ratio of total executive compensation to total Head Start funding were available, CRT ranks itself fourth out of seven agencies used in the draft report. Please see Exhibit 5 for a detailed chart.

#### **Total compensation vs. Head Start compensation**

CRT disagrees with the methodology applied in this Head Start audit, whereby the OIG compares total executive compensation when Head Start funds compose only a portion of CRT executive compensation. CRT believes that comparing Head Start funding levels would be more appropriate as this is a Head Start audit. For example, assuming that the 3-years total compensation imputed to CRT's executives as stated in the draft report to be correct, Head Start would have funded only a small share at 8.6%. Please see details provided in Exhibit 6.

The OIG draft report compares the **total** compensation of CRT's executives, including the portions not attributable and not charged to Head Start, to the salaries of executives of 16 Head Start agencies in Connecticut and one Head Start agency outside of Connecticut. Although the federal Head Start program is a very important service provided by CRT, Head Start funding constituted only 16 to 21 percent of CRT's overall funding during the audit period. Please see Exhibit 7 for detailed explanation regarding audit objectives.

#### **Audited v. Unaudited Compensation Data**

In each of its comparisons, the OIG draft report applies audited CRT executive compensation data with unaudited data. The data provided for each of the Connecticut Head Start agencies compared with CRT is derived from their IRS Forms 990, and has been neither audited nor validated. CRT disagrees with this "apples to oranges" approach as it does not provide a sound basis for the audit finding and does not meet government auditing standards. Please see Exhibit 8 for a detailed explanation.

**Proposed Approach**

CRT believes that a different approach assessing wage comparability is more reasonable and meets the objectives and purposes of this audit and of the Head Start Act. This approach is detailed in Exhibit 9.

**Recommendation**

*Establish controls to ensure that executive compensation meets the requirement of Section 653 of the Head Start Act and any future clarification, or requirements set out by ACF*

**CRT Response: Concur**

In 2004, CRT conducted a wage comparability survey that meets the requirements of Section 653 of the Head Start Act, as well as other federal requirements. CRT will periodically review this study to ensure that compensation paid to all of its executives is based on current wage data. Pursuant to CRT policy, changes to executive compensation will be presented to the Board of Trustees for review and approval.

**Finding No. 2:** *CRT did not provide written evidence that its Board of Directors followed established procedures in approving the CEO's compensation levels.*

**CRT Response: Do Not Concur**

CRT provided substantial documentation that its Board of Trustees followed established procedures in approving CEO compensation. This includes documents prepared during the audit period, as well as affidavits and signed statements from members of the Board and CRT's outside General Counsel, who all participated in the executive evaluation and compensation review. Please see Exhibit 10 for sworn affidavits and signed statements. These documents provide competent relevant evidence that CRT's Board was actively involved in CRT's established CEO compensation review process. CRT acknowledges that it did not retain certain confidential performance review worksheets from the 2000 contract negotiations that would further document the implementation of this process.

**Recommendation**

*Implement controls to ensure that the Board complies with CRT's approval process for CEO compensation.*

**CRT Response: Concur**

CRT agrees with this recommendation and has implemented it in its entirety. CRT has provided OIG with documentation establishing that it has fully implemented this policy.

**Recommendation**

*Document in the minutes of the meetings the approval process for CEO compensation including who voted on the contract and who recused themselves from voting on matters that would be a conflict of interest.*

**CRT Response: Concur**

This recommendation has been fully implemented and CRT has provided documentation that implementation has occurred.

**Finding No. 3:** *CRT did not provide written evidence that CRT officials followed established procedures in approving four executives' compensation levels in that five out of ten increases did not have the required signature from the Finance Department.*

**CRT Response: Concur**

CRT agrees that finance department approval of five salary increases was not adequately documented due to the absence of a signature by the finance department representative. The OIG has acknowledged that the required approval by the Department Head and by Human Resources was documented for all of the ten salary increases.

**Finding No. 4** *CRT's internal control procedures for executive compensation and related expenses were either not established or not followed. As a result, there was less than reasonable assurance that Head Start expenditures were reasonable and consistent with Federal requirements.*

**CRT Response: Do Not Concur**

CRT believes that its internal control procedures for executive compensation and related expenses were established and were followed. CRT is aware that there were gaps in documentation. However, CRT believes that this conclusory finding in the draft report is not supported by the audit. For example, the OIG draft report summarizes CRT's policies and procedures for approving CEO compensation (draft report p. 6). CRT provided the auditors with its finance department's written procedure for travel expenses. Although documentation as set forth in the written policy was not available during the audit, CRT followed internal controls, policies and procedures regarding agency related employee credit card expenses that included review by CRT's Accounts Payable Department on a monthly basis. This approval process by the Accounts Payable Department includes final review and approval by the accounts payable supervisor and CRT's internal auditor. The accounts payable staff, accounts payable supervisor and internal auditor have familiarity with events, business trips, training sessions and business entertainment of senior executives. This review process includes verifying that all expenses have valid business purposes before clearing for payment. These

policies and procedures have been effective over the years and provided an internal control environment for the finance department. Additional oversight and review was provided through CRT's compliance with OMB Circular A-133, which required CRT to undergo an annual audit by an independent accounting firm. During the period of the OIG review, CRT's audits were unqualified. The independent auditing firm presented its report to the Board annually, and in compliance with OMB A-133, the audit was distributed to CRT's various funding sources, including the Administration for Children and Families.

These procedures provide reasonable assurance that Head Start expenditures were reasonable and consistent with Federal requirements.

**Finding No. 5:** *OIG found no instances of non-compliance that teacher's compensation was both reasonable and consistent with Federal requirements.*

**CRT Response:** Concur

**Finding No. 6:** *CRT did not provide adequate documentation to show that \$201,755 in travel, restaurant and other credit card charges incurred by four executives and charged to an indirect expense account complied with Federal requirements.*

**CRT Response:** Concur

CRT agrees that adequate documentation for certain expenses was not available at the time of the audit and, therefore, such expenses were deemed unallowable. Other expenses were disallowed to the extent that they exceeded the federal per diem rate regardless of extent of documentation. The amount of \$201,755 that is in question is approximately one thirteenth of 1% of CRT's expenses over the three-year audit period.

CRT does not agree that \$201,755 in expenses did not meet federal requirements. CRT provided additional documentation that certain of these expenses meet federal requirements. The \$201,755 finding also includes expenses which were reimbursed at rates exceeding the federal per diem rate as provided by CRT's written policy. Although certain disallowed expenses were adequately documented, they exceeded federal per diem rates and therefore were disallowed in part. Although, it was never the intention of CRT's Board to limit reimbursement to the federal per diem rate, the policy was not formally amended at the time. CRT's Board has clarified on the record that it has always been the intent of the agency to reimburse its employees and Board members for the actual and reasonable costs incurred for attending agency-sanctioned conferences. CRT has provided the auditors with minutes of its Board meeting of January 18, 2005.

The Administration of Children and Families has agreed to fund CRT's indirect costs at a rate of 10.5%. However, during the 3-year audit period Head Start actually funded 6.59% of CRT's indirect expenses which is substantially less than the 10.5% agreed upon rate. Please see chart at Exhibit 11 for actual indirect costs reimbursed by Head Start. CRT submits that it

received less than the full rate for all indirect costs, including allowable costs which comprise the overwhelming majority of indirect costs reimbursed by Head Start.

Included in the draft report are a number of specific "Conditions" regarding unusual or undocumented expenses. CRT provides clarification for these audit items as set forth in Exhibit 12.

**Recommendation:**

*Implement policies and procedures, including adequate controls for credit card purchases by officers to ensure that: Purchases are approved in advance and are only for business expenses, purchases do not exceed an established threshold, and source documentation is retained for all purchase, including charges for more than one individual on a single card.*

**CRT Response: Concur**

CRT has implemented these recommendations. This includes documenting that such expenses are only for business purposes and that source documentation is retained for all purchases, including charges for more than one individual on a single card. Additional Guidelines instituted also include a requirement that travel expenses exceeding \$500 are approved in advance.

**Recommendation:**

*Improve procedures for ensuring that indirect costs claimed for reimbursement do not include unallowable or unreasonable items;*

**CRT Response: Concur**

CRT has implemented the Federal requirements for documentation of all business expenses effective January 1, 2004. This procedure will ensure that indirect costs claimed for reimbursement do not include unallowable, unreasonable or otherwise ineligible items. In addition, CRT has established a separate fund for all expenses deemed unallowable, unreasonable or lacking support. Such expenses will be funded through CRT's unrestricted revenues and will not be included in indirect costs.

**Recommendation:**

*Refund \$65,569 in unallowable business related expenses allocated to Head Start and other Federal programs.*

**CRT Response: Do Not Concur**

CRT does not agree to refund the full \$65,569. However, CRT agrees to refund that portion allocated to Head Start and other federal programs where adequate documentation is lacking pursuant to federal requirements. CRT has provided additional documentation which it understands will reduce the unallowable expenses amount.

**Other Matters**

**Unobligated funds**

During 2002, the Connecticut Department of Social Services (CDSS) forgave \$938,233 of funds provided over a 20-year period that had been payable to CDSS from CRT and another agency, Community Action for Greater Middlesex County (CAGMC). This forgiveness represents all amounts due to the state from CRT through December 31, 2000. The majority of this debt was assumed by CRT in connection with CAGMC's merger with CRT on January 1, 1999, representing a non-cash liability. No CRT executives benefited from the forgiveness of CAGMC debt.

**Interest income**

Federal funding of CRT's Head Start programs is on a reimbursement basis. Therefore, no interest was earned on any Head Start funds. Consistent with CRT programs and in accordance with prudent business practices, CRT where appropriate, maximizes the use of its funds through interest-bearing accounts. The OIG audit team working papers do not support the contention that interest was earned on any federal funds.

**EXHIBIT 1**

**Comparison with 16 Connecticut Agencies**

CRT disagrees with the draft report finding that when compared to a non-profit CAP agency in New England, the net amount paid to the five CRT executives exceeded their counterparts by \$457,809 because the compensation imputed to CRT's President/CEO is overstated.

CRT disagrees with the OIG finding that four of the five CRT executives exceeded the average rate of compensation paid to chief executive officers at Head Start agencies in Connecticut by \$738,043 from 2000-2002. Applying the OIG methodology, the net difference in compensation is \$562,728, not \$738,043.

Applying the draft report's methodology, the CEO 3-year average compensation (based on unaudited data) was understated in the draft report and should be \$351,860. Adjusting the figures while still applying the OIG methodology of comparing audited to unaudited executive compensation data, causes adjustments to the percent difference between three-year average compensation of each of the five CRT executives and the Connecticut CEO three-year average used by the OIG as follows: CEO/President 263%; Executive Vice President, 119%, Vice President 98%, VP Administration 120% and Head Start Director 60%.

Similarly, the difference in three-year average between the compensation paid to CEOs of Head Start agencies in Connecticut and each of the five CRT executives should be changed.

**CRT President/CEO Compensation**

The OIG draft report lists the CRT President/CEO's total compensation for the three-year period at \$924,452. CRT disagrees with the audit's compensation summary included in its work papers for CRT's President/CEO. Even under the methodology applied by the audit, the President/CEO's total compensation for the period 2000-2002 was \$740,432, not \$924,452. See summary below:

	2000	2001	2002	Total 2000-2002
Compensation per OIG				
Workpapers:				
Salary	193,335	202,517	212,608	608,460
Deferred compensation	38,667	40,503	42,522	121,692
Fringe benefits	4,525	4,575	6,100	15,200
Vehicle	6,053	6,053	6,053	18,159
Annuity	27,067	28,352	29,765	85,184
Split Dollar Policy	26,616	24,839	24,302	75,757
Total Compensation per OIG	296,263	306,839	321,350	924,452
CRT Adjustments:				
Deferred Compensation (1)	(38,667)	(40,503)	(42,522)	(121,692)
Vehicle (2)	(3,632)	(3,632)	(3,632)	(10,896)
Split Dollar Policy (3)	(19,161)	(16,749)	(15,522)	(51,432)
	(61,460)	(60,884)	(61,676)	(184,020)
Difference OIG/CRT				
	234,803	245,955	259,674	740,432
Final Adjusted Compensation				
Compensation Per Form 990	227,135	213,017	261,230	701,382
Difference - Actual - Form 990(4)				39,050

- (1) The CRT deferred compensation plan is subject to a substantial risk of forfeiture as defined under IRC Section 83(c)(1). Therefore, it is CRT's position that this amount should not be recorded as compensation to the employee or in the Form 990. These amounts should only be considered for the purpose of reasonable compensation in the first reporting period in which the substantial risk of forfeiture is no longer present in accordance with IRC section 83a. This analysis also clearly applies in determining whether the CEO's compensation for each of the periods was reasonable. Accordingly, the deferred compensation should not be included as compensation for the period of 2000-2002. Therefore, this amount has been adjusted in its entirety.
- (2) Form 990 instructions ask for only the "personal use" of automobiles to be listed on the Form 990. OIG has included 100% of the lease amount in its work papers. The CEO drives approximately 10,000 miles/year for personal use to and from work. Total miles driven per year approximate 25,000 miles/year. Accordingly, only 40% of this amount should be included in accordance with the Form 990 instructions and an adjustment for 60% (or \$3,632) has been made to OIG amounts.
- (3) Under a split dollar agreement between an employer and an employee for which the premiums payable under a life insurance policy are paid by the employer, compensation to the CEO should represent the cost of only the life insurance portion for all such policies prior to January 1, 2004. OIG included 100% of the cost of the policy in its workpapers in each reporting year but only the portion deemed as "compensation" should be reported. Based on the CEO's age and a policy face value of \$500,000 the approximate amounts that should have been deemed as compensation are \$14.91 per \$1,000 (totaling \$7,455) in 2000, \$16.18 per 1,000 (totaling \$8,090) in 2001 and \$17.56 per 1,000 (totaling \$8,780) in 2002 based on IRS Table P.S.-58. Accordingly, these amounts have been adjusted in each reporting year 2000-2002.
- (4) This difference can primarily be attributed to an oversight relating to including the CEO's annuity as compensation on the 2001 Form 990.

Below are the appropriate numbers after implementing these adjustments to the executive compensation figures:

**Executive Compensation Comparison with 16 Connecticut Head Start Agencies**

<b>Position</b>	<b>CRT</b>	<b>CEO 3-year Average</b>	<b>Difference</b>	<b>Percent of CT CEO's</b>
CEO President	\$740,432	351,860	\$388,572	210.43%
Executive Vice President	417,900	351,860	\$66,040	118.77%
Vice President	344,463	351,860	(\$7,397)	97.90%
Vice President – Administration	423,489	351,860	\$71,629	120.36%
Head Start Director	211,724	351,860	(\$140,136)	60.17%
<b>TOTAL</b>	<b>2,138,008</b>	<b>1,759,300</b>	<b>\$378,708</b>	<b>121.53%</b>

**Executive Compensation Comparison with Non-Connecticut Agency**

<b>Position</b>	<b>CRT</b>	<b>CEO 3-year Average</b>	<b>Difference</b>	<b>Percent of CT CEO's</b>
CEO President	\$740,432	541,222	\$199,210	136.81%
Executive Vice President	417,900	472,054	(\$54,154)	88.53%
Vice President	344,463	346,910	(\$2,447)	99.29%
Vice President – Administration	423,489	362,832	\$60,657	116.72%
Head Start Director	211,724	141,201	\$70,523	149.95%
<b>TOTAL</b>	<b>2,138,008</b>	<b>1,864,219</b>	<b>\$273,789</b>	<b>114.69%</b>

## EXHIBIT 2

Community Renewal Team, Inc. (CRT) was founded in 1963 as the Greater Hartford area community action agency under the Economic Opportunity Act. The agency has over 700 employees, 10% of whom are teachers in our Early Childhood Division that includes the federally funded Head Start program. Of the 50,000 clients served annually by CRT, approximately 10% are Early Childhood clients. As a multi purpose, human service agency, Head Start funding represented 16 to 21 percent of the agency's budget of \$51 to \$59 million during the years 2000, 2001 and 2002.

In 1999, the agency merged with Community Action for Greater Middlesex County, and now provides services in Hartford and Middlesex Counties. CRT is now one of the oldest continuously operating community action agencies in the nation and is the largest in Connecticut, with programs in more than 59 cities and towns throughout the Connecticut River Valley.

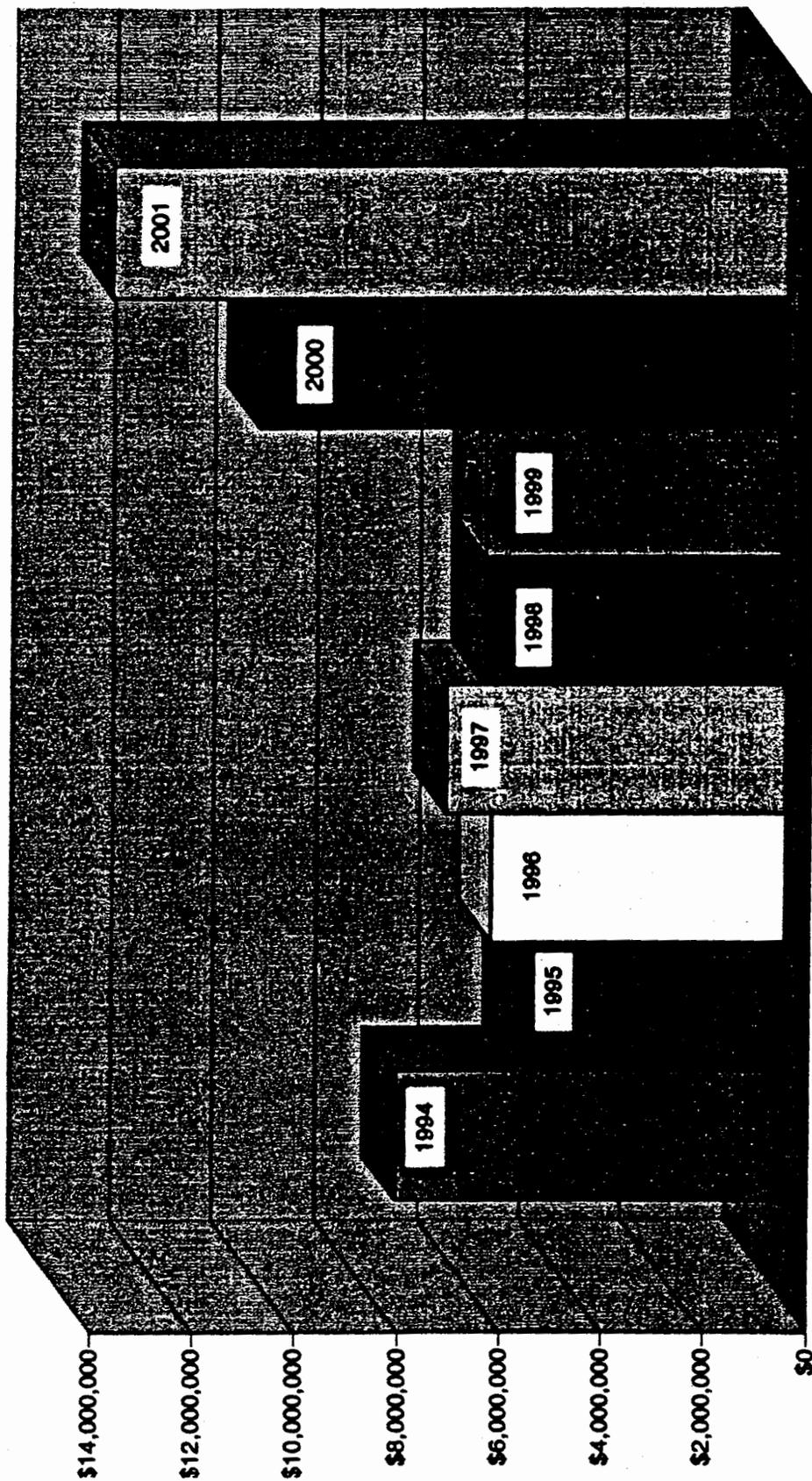
CRT's mission, "Preparing Our Community to Meet Life's Challenges," reflects how the agency responds to changing circumstances and realities. CRT has evolved from programs that meet basic human needs to those that focus on skill and asset building and providing children and individuals with the means and the tools to become self-sufficient.

Today, CRT's programs include more than Head Start and early childhood activities, including:

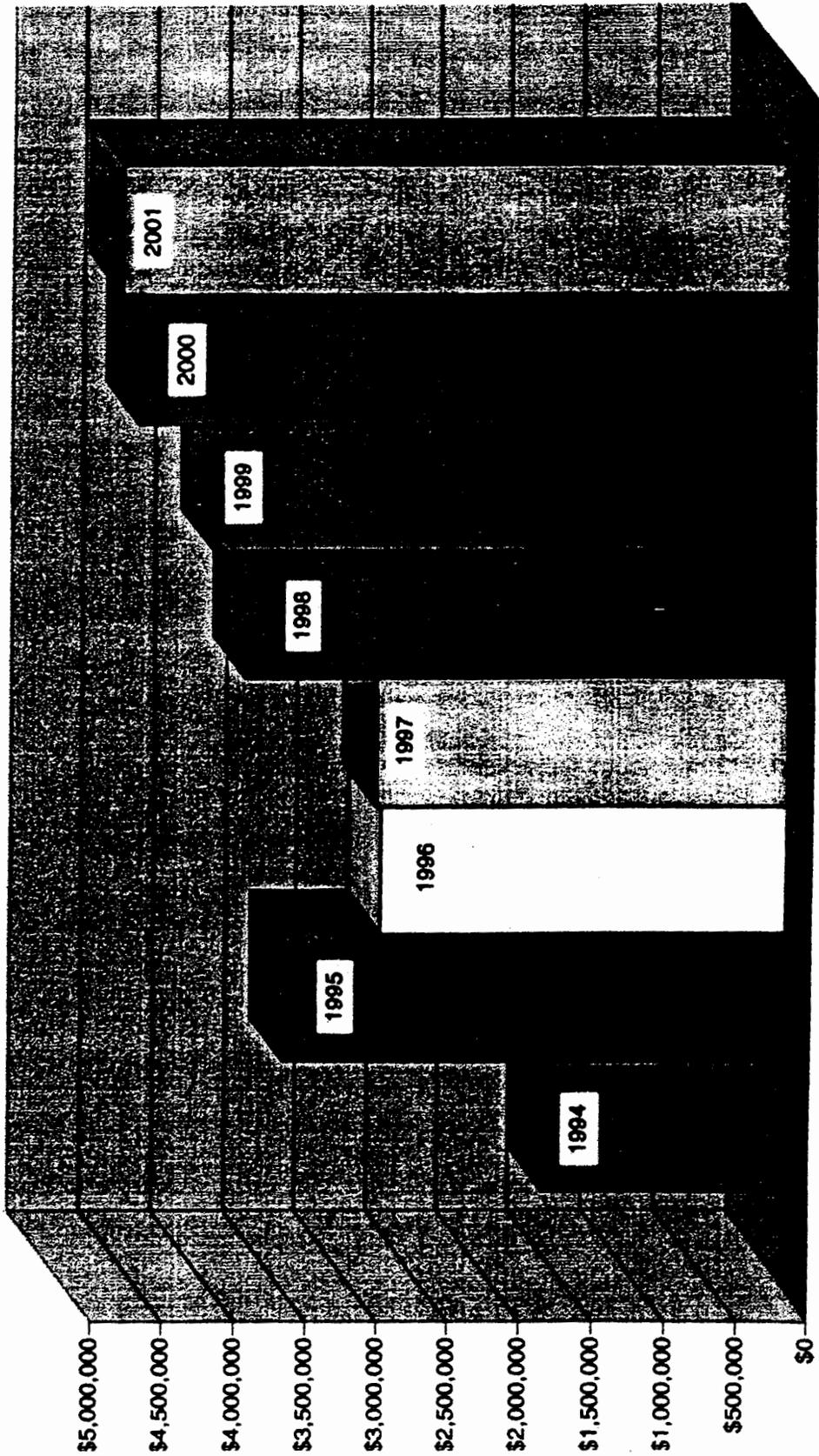
- Senior services including meals on wheels and congregate meals (approximately 7,000/day)
- Community Mental Health Clinic
- Coordinated case management (Across 40 programs)
- Energy Assistance & Weatherization (Serving approximately 30,000 families/year)
- Affordable Housing, Elderly Housing, Shelter and Supportive Housing Services
- Employment Training (Designated One-Stop Operator)
- Criminal Justice (Second Largest Criminal Sanctions Operator in Connecticut)
- Individual Development Accounts (IDAs) and asset building
- Free income tax preparation assistance (\$2 million returned to Hartford residents through Earned Income Tax Credit Program)
- Management/Oversight of Retired Senior Volunteer Program (over 2,000 volunteers)
- National Arts Program Operating in Greater Hartford (juried amateur art currently 2,000 entries a year)
- Youth Programming (after school, part-time work, mentoring)
- The Meadows Real Estate Development Corporation (a separate 501(c)(3) Development Company managed by CRT) Offering affordable and below market rate housing

CRT continues to identify and meet the changing needs of its communities. New diverse programs and services are developed to address these needs. CRT was chosen by the State of Connecticut to develop a first in Connecticut demonstration project to provide assisted living services for low income seniors known as The Retreat. The project will provide 100 units of new construction. CRT is committed to developing badly needed affordable housing in Hartford and other towns. Community Mental Health Clinic services and substance abuse treatment services are being developed to meet the needs of our clients. Financial literacy, income tax preparation, employment training, and life skills are all emerging areas of focus and growth for CRT.

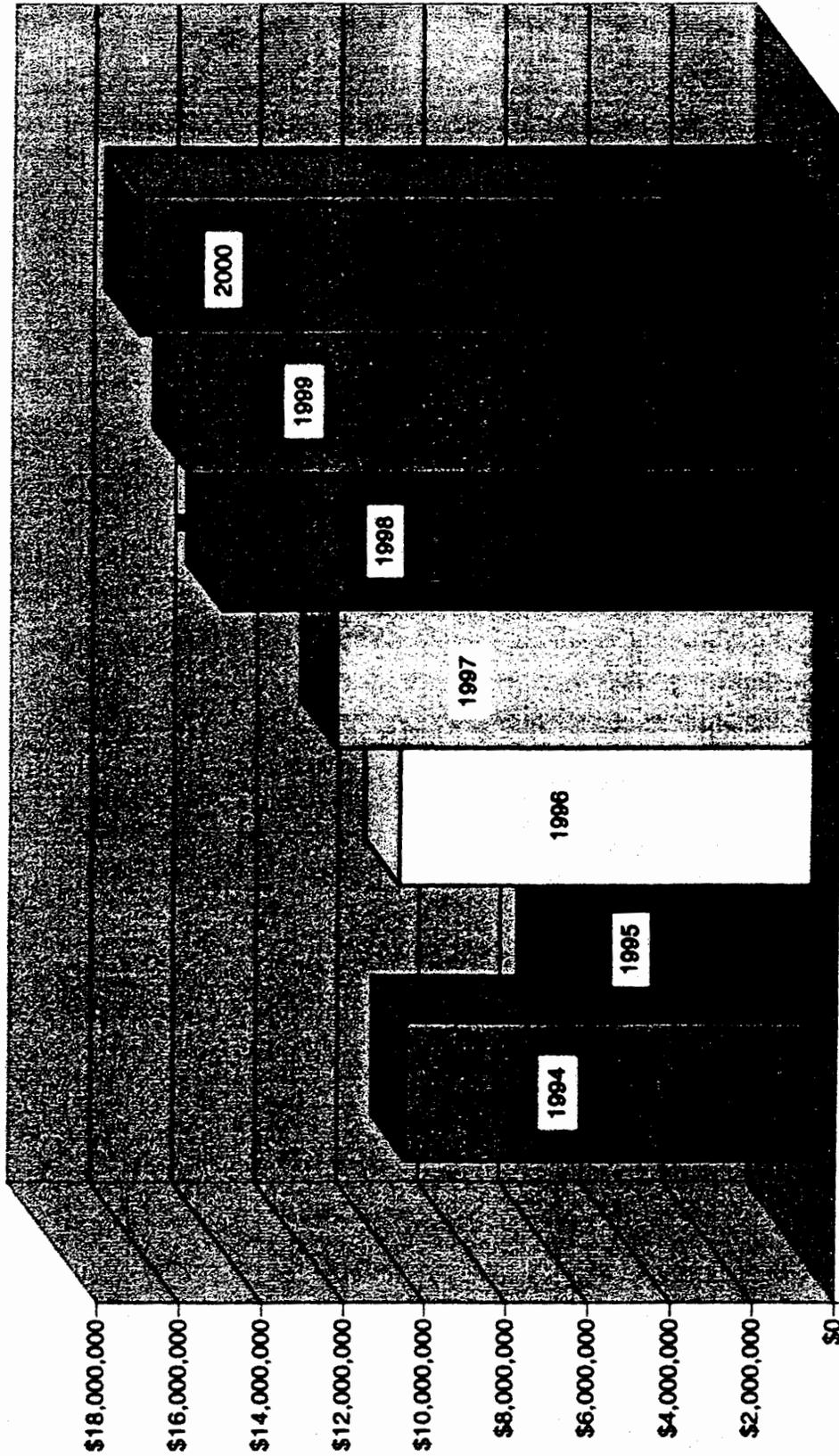
**EXHIBIT 2**  
**CRT Service Expansion**  
**Energy Related Services**



**EXHIBIT 2**  
**CRT Service Expansion**  
**Elderly Nutrition Services**



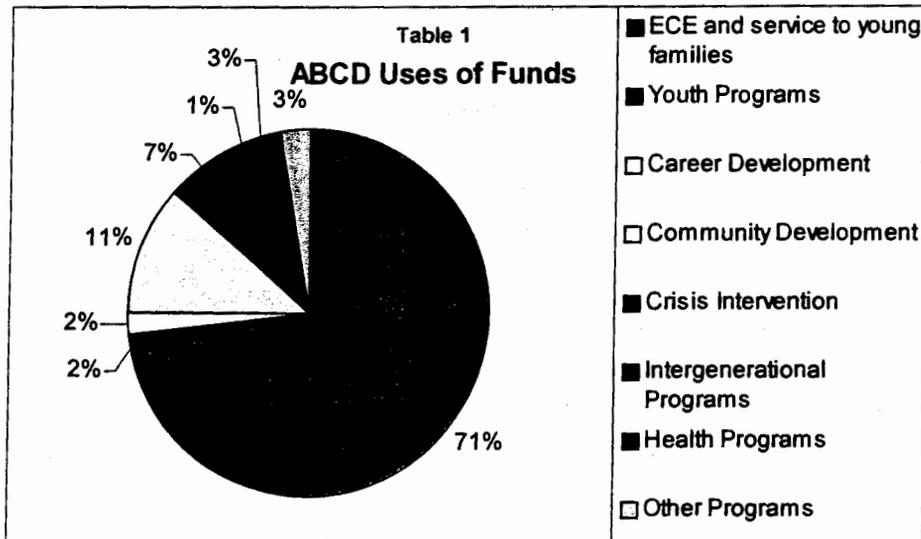
**EXHIBIT 2**  
**CRT Service Expansion**  
**Housing and Shelter Services**

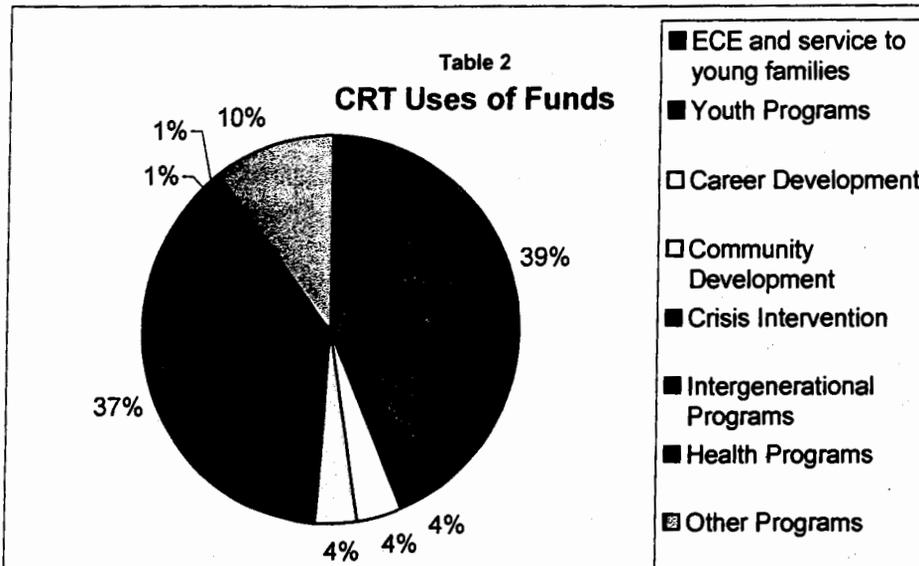


**EXHIBIT 3**

CRT and the non-Connecticut New England non-profit agency (Action for Boston Community Development) are not comparable for purposes of assessing compensation. CRT operates more programs in a larger number of communities. CRT programs are more diverse and complex than ABCD Boston based on its use of funds. An overwhelming percentage of ABCD's fundings (71%), according to its Annual report, supports early childhood programming. Only 39% of CRT's funding supports early childhood programming, and Head Start contributed only 16 and 21 percent of CRT's total funding during the audit period. The use of funds comparison below shows the concentration of ABCD programs while CRT has a much broader mix of programs.

**Use of Funds Comparison**





During the audit period, CRT experienced significant expansion in the services offered to the community (see Exhibit 2). CRT incorporates the information about CRT provided above (page 1-2) which demonstrates the width and breathe of the organization.

Geographical Area

OMB Circular A-122 provides that in order to be reasonable, compensation for employees in organizations predominately engaged in federally sponsored activities should be comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved. CRT and ABCD are in different states and are not within the same geographical area; nor is the geographical areas each covers comparable in size. ABCD programs cover Boston, a 48 square mile area compared to CRT's programs in 59 cities and towns covering 2 counties and 1726 square miles (see Exhibit 7). CRT's programs are designed to meet the varied needs of the people they serve in cities, suburban and rural areas. The use of an entire geographic region (New England) appears inconsistent with Section 653, which refers to the "area where the program is carried out" as well as paragraph 8.c(2) of attachment B to OMB Circular A-122 [formerly paragraph 7.c(2) prior to the revisions effective June 9, 2004], which refers to "the labor markets in which the organization competes for the kind of employees involved."

EXHIBIT 4

CEO Compensation per Head Start Child

Agency	CEO Compensation <sup>1</sup>	# Federal Head Start Children	Compensation per child
New Haven Board of Education	\$87,734.00	870	\$100.84
ABCD Bridgeport	\$120,826.00	571	\$211.60
Thames Valley Council for Community Action	\$102,953.00	453	\$227.27
CRT	\$384,476.00	1,215	\$316.44
Hall Neighborhood House	\$116,113.00	361	\$321.64
Human Resource Agency of New Britain	\$99,389.00	265	\$375.05
New Opportunities	\$194,136.00	429	\$452.53
TEAM	\$72,942.00	160	\$455.89
Child Care Center of Stamford	\$137,662.00	267	\$515.59
Norwalk Economic Opportunities Now	\$143,138.00	257	\$556.96
West Haven Community House Assoc	\$82,621.00	147	\$562.05

<sup>1</sup> Source: IRS Form 990

**EXHIBIT 5**

**Total Executive Compensation as a Percentage of Head Start Funding**

<b>Agency</b>	<b>Head Start Funding<sup>1</sup></b>	<b>Exec. Compensation<sup>2</sup></b>	<b>% of Exec. Comp. to HS Funding</b>
Thames Valley Council for Community Action	\$13,314,672.00	\$243,221.00	1.83%
ABCD Bridgeport	\$6,466,506.00	\$384,182.00	5.94%
CRT	\$10,635,154.00	\$796,519.00	7.49%
Norwalk Economic Opportunities Now	\$5,100,006.00	\$382,394.00	7.50%
TEAM	\$2,049,752.00	\$192,627.00	9.40%
Child Care Center of Stamford	\$2,871,801.00	\$428,878.00	14.93%
Human Resource Agency of New Britain	\$2,183,218.00	\$346,893.00	15.89%

**Mean 9.00%**

<sup>1</sup>Source: Administration of Children and Families

<sup>2</sup>Source: IRS Form-990

**EXHIBIT 6**

The chart below applies the compensation figures imputed to CRT executives to the amount that would have been funded indirectly by Head Start.

<b>Position</b>	<b>Head Start Indirect Share 2000-2002</b>	<b>OIG Total Imputed Compensation</b>	<b>Percentage of Total Compensation</b>
CEO/President	\$79,754	\$924,452	10.77%
Executive Vice President	\$35,939	\$417,900	8.6%
Vice President	\$29,623	\$344,463	8.6%
Vice President - Administration	\$36,420	\$423,489	8.6%
<b>TOTAL</b>	<b>\$181,736</b>	<b>\$2,110,304</b>	<b>8.6%</b>

## EXHIBIT 7

### Audit Objective

The OIG objective in performing the audit was to "determine whether CRT's compensation and related expenses for five key executives and for teachers were reasonable and consistent with Federal requirements and guidelines." Section 653 and other federal regulations applicable to compensation at Head Start Agencies pertain solely to the portion of the executives' compensation reimbursed with Head Start funds. Those restrictions do not apply to executive compensation paid with funds other than Head Start.

Section III of OMB Circular No. A-122 provides that the principles [set out in the circular] do not apply to awards under which an organization is not required to account to the federal government for actual costs incurred. Further, Section 205 of the recently passed 2005 Omnibus Appropriations Act, the most recent legislation relating to Head Start executives compensation provides that "none of the funds appropriated in this title for Head Start shall be used to pay the compensation of an individual ... at a rate in excess of Executive Level II." P.L. 108-447, § 205. As the language clearly indicates, the limitation applies only to funds appropriated for Head Start, and not compensation funded by other sources. This is also evidenced in the legislative history of Section 205, which was enacted because the House Committee was concerned that Head Start funds were being spent on "lavish salaries and compensation packages for their executives." 2004 House Committee Report No. 108-636. The House Committee's concerns came from the HHS Report which showed that "while some local grantees used Head Start funds to pay only a small fraction of the salary and compensation packages for their executives, other grantees billed Head Start for much or nearly all the annual amount." Committee on Education and the Workforce, Press Release, May 13, 2004. Clearly, Congress' concerns lie with those portions of executive compensation, which are funded with Head Start funds.

## EXHIBIT 8

### Comparison of Audited to Unaudited Compensation Data

The Government Auditing Standards provide that “evidence should be sufficient, competent, and relevant to support a sound basis for audit findings, conclusions and recommendations.” Government Auditing Standards, c. 7 at § 7.52 (2003). Since the executive compensation data for all the agencies except CRT applied in the draft report is unaudited there is no assurances that portions of the key executives’ have been allocated to other subsidiaries or affiliated companies, that certain deferred compensation plans have substantial risks of forfeiture that would not be included in Form 990, or that certain aspects of their employee contracts were not considered. As these factors may affect the reported amounts significantly, comparing audited with unaudited data creates an apple to orange comparison that is not competent to support the audit findings.

The audit team had access to and audited CRT’s five key executive’s employment contracts, payroll records and Form 990’s and made many additions relating to employee benefits and deferred compensation plans. The data presented for ABCD came directly from its IRS Form 990 and has been neither audited nor validated. It is not appropriate to compare audited data for CRT to “unaudited” data in a report conducted in accordance with generally accepted government auditing standards. For example, portions of the key executives’ salaries may have been allocated to other subsidiaries or affiliated companies, that certain deferred compensation plans have substantial risks of forfeiture that would not be included in Form 990, or that certain aspects of their employee contracts were not considered. This may affect the reported amounts significantly. Therefore, comparing audited with unaudited data is an apple to orange comparison that is unreliable and unreasonable to CRT, and by its nature raises questions about its reliability.

## EXHIBIT 9 EXECUTIVE COMPENSATION

The stated objective of this review of the Head Start compensation at CRT was to determine whether CRT's compensation practices for teachers and the top five key executives were reasonable and consistent with Federal requirements and guidelines. The OIG's approach to the issue of determining reasonable compensation for Chief Executive Officers of Head Start agencies is centered on a Head Start agency-to-Head Start agency numeric dollar-to-dollar analysis. During a meeting with the OIG auditors, it was discussed that this analysis methodology was not without some difficulties, because of the diversity of anti-poverty agencies services that to merely compare only compensation without also factoring into that measurement the services offered, size, managerial performance, and overall complexity of the agency. These factors would, more likely than not, result in a less than fair and reasonable comparison of comparable services. The Region I auditors therefore invited CRT to present an alternate approach to determining reasonable compensation for Chief Executive Officers of Head Start agencies. The following is that alternate approach.

### Proposed Approach

Federal regulations provide that Head Start employees may not receive compensation in excess of the average rate of compensation paid in the area for comparable services. OMB Circular A-122 specifically provides that . . . "in order to be reasonable, compensation for employees in organizations predominately engaged in federally sponsored activities should be comparable to that paid to similar work in the labor markets in which the organization competes for the kind of employees involved."

CRT recommends that a metric be developed for measurement of Head Start executive compensation based upon the work of Kennedy School of Government, Harvard University Professors, Peter Frumkin and Elizabeth K. Keating in their large research study entitled, "The Effectiveness of Regulating Governance: The Case of Executive Compensation in Nonprofit Organizations", working paper, Kennedy School of Government, Harvard University. Frumkin and Keating's conclusions are in part based upon the analysis of 27,319 nonprofit organizations IRS Form 990 for the years 1998 through 2000. In substance, the authors have found that executive compensation in nonprofit organization is generally determined by the following measurable factors:

- ORGANIZATION SIZE (managerial responsibility)
- COST EFFICIENCIES IMPLEMENTED
- FUND RAISING ACTIVITY/SUCCESS
- PROGRAM DEVELOPMENT
- ORGANIZATIONS FINANCIAL STABILITY

CRT believes that these five measurable factors constitute a reasonable approach to determine the appropriate executive compensation, and a tool to then measure comparable similar work in the same labor markets.

I, Attorney Anthony J. Palermino, being duly sworn, deposes and says:

1. I currently serve as General Counsel for the Community Renewal Team, Inc. and have served in that capacity for over 10 years.
2. As General Counsel, I am familiar with CRT's policies in general, and, in particular, the process for the evaluation of CRT's President.
3. The first step in the evaluation process occurs when the Executive Board, meeting without staff and without Mr. Puzzo, discusses the evaluating responsibilities and, distributes the evaluation forms.
4. On or about February 15, 2000, Ralph Pierno, Chairman, provided a memorandum to members of the Executive Board concerning their responsibilities regarding the evaluation of CRT's President. Along with that memorandum was included the evaluation form to be utilized. Pierno's memorandum requested that the signed evaluation form be submitted to him on or before March 6, 2000 and, asked the Executive Committee members to be willing to discuss the summary of the evaluation forms if so requested.
5. The evaluation forms were filled out by the individual Executive Board members and returned to Mr. Pierno who compiled a composite evaluation of the President.
6. On or about April 25, 2000, I attended a meeting with Pierno, Executive Board members, Conrad Mallet, Jaime Avilez, and Walter Benjamin and, Wheeler Smith was participating in the meeting through a conference call. At this meeting the Executive Board members discussed their evaluations of the President and the composite evaluation.
7. Once the evaluation was finalized, the Executive Board members directed Pierno to negotiate with the President for changes in the contract and instructed Pierno to get comparable salary information concerning the compensation package and to look at succession planning.
8. In accordance with the Board's evaluation policy, Pierno as Chairman met with Puzzo to discuss contract terms. Contract options were presented by Puzzo to Pierno and, I discussed such options with Pierno at his request on more than one occasion.

9. On or about June 12, 2000, Pierno sent an email to me concerning the negotiations requesting my review and comments. I met with Pierno to discuss his negotiations with Puzzo shortly thereafter.
10. In a memorandum dated June 12, 2000, Pierno detailed the components of a compensation package resulting from his discussions with Puzzo and his review with myself. His memorandum indicated that both compensation and succession planning issues were contained in the proposed package.
11. In accordance with the Board's policy, the proposed compensation package was discussed by Executive Committee members, at a meeting that I attended which excluded all staff including Puzzo. At this meeting I was instructed to draft a copy of the Personal Services Agreement based upon the negotiations between Pierno and Puzzo which had been approved by the Executive Board.
12. On or about July 7, 2000, I forwarded a draft copy of an agreement to Pierno for his review. During July there were further discussions between Pierno and myself regarding the document.
13. I met with Pierno on July 14, 2000 to review proposed revisions to the Agreement made by Pierno and the Executive Committee members. I incorporated those revisions into the Agreement and sent it to Pierno on July 18, 2000.
14. On or about September 21, 2001, the Agreement was executed by Puzzo and Pierno and, I served as a witness to the execution of the document.
15. During 2004, the Executive Board commenced the evaluation process of the President in accordance with its normal procedures. Chairman John Hussey provided evaluation documents to be filled out by Board members which were returned to him. Chairman Hussey compiled a composite of the evaluations and discussed that composite with the Board members for their approval.
16. On or about August 13, 2004, I sent to Chairman Hussey a proposal that came from Attorney Kenneth Plumb representing Mr. Puzzo in the proposed modification of Puzzo's employment agreement.
17. In September, 2004, I attended a meeting with CRT Board Chairman John Hussey, CRT President Paul Puzzo, Kenneth Plumb, Puzzo's attorney, and Christine Eckert, a consultant who had been retained to review compensation issues and provide information to the Board. At that meeting discussions were

had concerning Puzzo's compensation. In addition, after I left the meeting discussions were had concerning changes to the existing contract that I learned of after the meeting.

18. Shortly thereafter, I received a copy of proposed Personal Services and Retirement Agreements drafted by Puzzo's counsel and addressed to Chairman Hussey.
19. At the Board meeting held on October 19, 2004, Chairman Hussey indicated that he had just received the proposed Agreements on the Saturday before the Tuesday meeting and, did not feel that the matter should be taken up at that meeting. It was requested that I compile a contract comparison between the existing contract of Mr. Puzzo and the proposed Personal Services Agreement and Retirement Agreement.
20. On October 21, 2004, I sent to Chairman Hussey and CRT for distribution to the Board members the contract comparison which was requested at the October 19, 2004 meeting.
21. At the meeting on October 29, 2004 Board members had an extensive discussion of the proposed Personal Services Agreement and began a discussion of the proposed Retirement Agreement but did not complete that discussion. Due to the additional questions which members had, the Board voted to postpone discussion and/or action on the Agreements until the December, 2004 meeting.
22. At the December 14, 2004 meeting the Board had extensive discussion concerning the proposed Agreements, the Agreements were put to a vote and were approved on that date.

I have read the foregoing and it is true to the best of my knowledge and belief.

Dated at Hartford, Connecticut this 20<sup>th</sup> day of January, 2005.

  
Anthony J. Palermino

Subscribed and sworn to before me this 20<sup>th</sup> day of January, 2005.

By Betty B. Ficacelli  
Notary Public

**BETTY B. FICACELLI**  
**NOTARY PUBLIC**  
MY COMMISSION EXPIRES MAR. 31, 2009

On this the 22 day of October, 2004, I submit that the following statements are correct, and are in accordance with the By-Laws of the Community Renewal Team, Inc. and its policies and procedures:

1. Robert J. Fishman, was a member of the CRT Board of Trustees during the 2002 Term. During that time I participated in the evaluation of the President/CEO, Paul Puzzo. The process of the evaluation was as follows:

1. At a meeting of the Board from which all staff, including Paul Puzzo, are out of the room the Board discusses the evaluation forms which are sent to each member for their evaluation of the president.
2. The evaluations are returned to the Chairman who then compiles a composite evaluation of the president. This composite evaluation is discussed in a meeting of the Board from which all staff including Paul Puzzo are excluded.
3. The Board members discuss the composite evaluation and changes are made to it based upon the members' discussion.
4. Once the evaluation has been finalized the Board members direct the Chairman to negotiate with Paul Puzzo for changes to his contract.
5. When the negotiations between the Chairman and Paul Puzzo are concluded the Chairman reports the information to the Board in a meeting where all staff including Paul Puzzo are excluded. The Board holds a discussion concerning the proposed new contract, votes on the final revisions and instructs Board counsel to prepare the revisions.
6. The evaluation process includes written evaluations forms filled out by Board members on or side of any Board meeting; a composite evaluation compiled from the written evaluations by the Chairman; a Board discussion of the composite evaluation which changes made as required; a period of negotiation between the Chairman and Paul Puzzo; and a report to the Board by the Chairman for further discussions of what was negotiated; and, finally the Board instructing counsel to prepare the agreement.

I have been involved in the evaluation process described above as a Board member, which were followed by the Agency during my tenure.

I have read the foregoing and it is true to the best of my knowledge and belief.

Dated at Hartford, CT this 22 day of October, 2004

Signature:

Please Print Name:

Witness:

On this the 25 day of October, 2004, I submit that the following statements are correct, and are in accordance with the By-Laws of the Community Renewal Team, Inc. and its policies and procedures:

I, Sylvia Gafford-Alexander, was a member of the CRT Board of Trustees during the 2002 Term. During that time I participated in the evaluation of the President/CEO, Paul Puzzo. The process of the evaluation was as follows:

1. At a meeting of the Board from which all staff, including Paul Puzzo, are out of the room the Board discusses the evaluation forms which are sent to each member for their evaluation of the president.
2. The evaluations are returned to the Chairman who then compiles a composite evaluation of the president. This composite evaluation is discussed in a meeting of the Board from which all staff including Paul Puzzo are excluded.
3. The Board members discuss the composite evaluation and changes are made to it based upon the members' discussion.
4. Once the evaluation has been finalized the Board members direct the Chairman to negotiate with Paul Puzzo for changes to his contract.
5. When the negotiations between the Chairman and Paul Puzzo are concluded the Chairman reports the information to the Board in a meeting where all staff including Paul Puzzo are excluded. The Board holds a discussion concerning the proposed new contract, votes on the final revisions and instructs Board counsel to prepare the revisions.
6. The evaluation process includes written evaluations forms filled out by Board members outside of any Board meeting; a composite evaluation compiled from the written evaluations by the Chairman; a Board discussion of the composite evaluation which changes made as required; a period of negotiation between the Chairman and Paul Puzzo; and a report to the Board by the Chairman for further discussions of what was negotiated; and, finally the Board instructing counsel to prepare the agreement.

I have been involved in the evaluation process described above as a Board member, which were followed by the Agency during my tenure.

I have read the foregoing and it is true to the best of my knowledge and belief.  
Dated at Hartford, CT this 26 day of October, 2004.

Signature: Sylvia Gafford-Alexander  
Please Print Name: Sylvia Gafford-Alexander

Witness: [Signature]

On this the 25<sup>th</sup> day of October, 2004, I submit that the following statements are correct, and are in accordance with the By-Laws of the Community Renewal Team, Inc. and its policies and procedures:

I, CONRAD L. MALLET, was a member of the CRT Board of Trustees during the 2002 Term. During that time I participated in the evaluation of the President/CEO, Paul Puzzo. The process of the evaluation was as follows:

1. At a meeting of the Board from which all staff, including Paul Puzzo, are out of the room the Board discusses the evaluation forms which are sent to each member for their evaluation of the president.
2. The evaluations are returned to the Chairman who then compiles a composite evaluation of the president. This composite evaluation is discussed in a meeting of the Board from which all staff including Paul Puzzo are excluded.
3. The Board members discuss the composite evaluation and changes are made to it based upon the members' discussion.
4. Once the evaluation has been finalized the Board members direct the Chairman to negotiate with Paul Puzzo for changes to his contract,
5. When the negotiations between the Chairman and Paul Puzzo are concluded the Chairman reports the information to the Board in a meeting where all staff including Paul Puzzo are excluded. The Board holds a discussion concerning the proposed new contract, votes on the final revisions and instructs Board counsel to prepare the revisions.
6. The evaluation process includes written evaluations forms filled out by Board members outside of any Board meeting; a composite evaluation compiled from the written evaluations by the Chairman; a Board discussion of the composite evaluation which changes made as required; a period of negotiation between the Chairman and Paul Puzzo; and a report to the Board by the Chairman for further discussions of what was negotiated; and, finally the Board instructing counsel to prepare the agreement.

I have been involved in the evaluation process described above as a Board member, which were followed by the Agency during my tenure.

I have read the foregoing and it is true to the best of my knowledge and belief.

Dated at Hartford, CT this 25<sup>th</sup> day of October, 2004.

Signature: Conrad L. Mallet

Please Print Name: CONRAD L. MALLET

Witness: [Signature]

EXHIBIT 11

The Community Renewal Team, Inc.  
Head Start Admin Cost Analysis  
For the Years Ending December 31, 2000, 2001, and 2002

Fiscal Year	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>TOTAL</u>
Total Head Start Expenses	9,289,643	10,634,648	10,635,154	30,559,775
Times 10.5% (Allowed I/C)	<u>10.5%</u>	<u>10.5%</u>	<u>10.5%</u>	
Max. Allowed I/C	975,413	1,116,638	1,116,691	
<b>Amount Recorded per CRT</b>				
Salary and Benefits	-	-	(198,585)	
Materials & Supplies	234,702	268,881	314,459	
Professional Fees	109,641	146,235	203,248	
Other	<u>421,650</u>	<u>282,835</u>	<u>203,248</u>	
	789,123	724,941	500,161	2,014,225
Write off of Grant Receivable FY 01	-	-	831,200	
Difference between Max and Actual	<u>186,290</u>	<u>391,697</u>	<u>(214,670)</u>	
	8.49%	6.82%	0.00%	6.59%

## EXHIBIT 12

### Unusual or Inadequately Documented Miscellaneous Charges

The draft report lists a number of items indicated as unusual or inadequately documented, including officer and staff gifts, flowers, CEO golf green fees and charges for club memberships for two executives.

### Automobile Repairs

The OIG draft report disallows one automobile repair charge in the amount of \$237.86. CRT disagrees with the disallowance of this business expense, and provided documentation that the expense was incurred for repair of a CRT-owned delivery van.

### Flowers

These costs are comprised of floral arrangements for the front entrance of CRT headquarters and for employee incentives and life cycle events (i.e., family deaths and births). These costs are allowable pursuant to OMB Circular A-122, Attachment B, paragraph 13, "Employee Morale, Health and Welfare Costs and Credits." Nevertheless, CRT agrees not to include such fees in its indirect cost calculation for federal reimbursement.

### Club Memberships

CRT disagrees with the disallowance of business club membership fees for its President/CEO and Executive Vice President. OMB Circular A-122 provides that membership costs are allowable for business and professional organizations. The membership fees in question pertain to The Hartford Club, which has approximately 1,000 members including numerous corporate memberships and provides dining, meeting, business and community networking opportunities. It advertises itself as supporting "its role as a vital component of the downtown business community and social community." It has as its members some of Connecticut's most influential business, civic and government leaders. Membership is, therefore, important for the development of relationships, critical to improving and funding programs, networking with officials and corporate leaders, CRT's funding sources and community partners. CRT, as a multi-faceted organization, clearly and directly benefits by its membership in The Hartford Club, a concept that is embraced by OMB Circular A-122. Nevertheless, CRT agrees not to include such fees in its indirect cost calculation for federal reimbursement.

### Staff Gifts

Over the course of the audit period three gifts of wine totaling \$545 were purchased for CRT staff members. These gifts were for employee incentives and life cycle events. Nevertheless, CRT will no longer include them as expenses subject to indirect federal funding.

### Wedding Gift and Department Store Purchases

The audit refers to gifts however there was only one purchase of a wedding gift on May 14, 2001 for \$320.94. This cost is allowable under OMB Circular A-122 paragraph 13, "Employee Morale, Health, and Welfare Costs and Conditions." There are only two department store purchases. One on May 14, 2001 for \$320.94, which is a wedding gift and one on December 4, 2002 for \$62.12. CRT will no longer include such expenses in federal indirect cost calculations.

### Board of Trustees Annual Holiday Meeting

Alcoholic beverages are traditionally provided once a year at a Board of Trustees meeting held at the end of the calendar year. Signed statements corroborating this once a year purchase for the Board meetings have been provided to the OIG auditors. CRT will no longer include them as expenses subject indirect federal funding.

### Green Fees

There are two green fee charges during the audit period. September 4 and 7, 2002 which total \$258.48. These expenses were incurred at an out-of-town conference. CRT understands that such expenses are not subject to indirect federal funding.

### Travel and Meal Expenses

The audit report references travel charges which includes suites or days beyond the conference and the conference dates. CRT's records reflect one instance where a suite was booked and that was to accommodate an on-site Board of Directors meeting. The audit report also specifically notes 512 restaurant charges and proposes a five-part documentation test. This test requires more documentation than is required in the normal course by the Internal Revenue Code. The working draft states that the meal expenses for 512 local restaurant charges over the three year audit period averaged \$102. These meal charges relate to agency-wide business meetings, including sandwiches for board of directors and other agency meetings. The average cost per person for sandwiches purchased from Congress Rotisserie for Board and Committee meetings identified attendees was \$12.31. The average cost of all meals for identified attendees was \$36.93. CRT submitted additional documentation regarding these expenses. CRT submits that these charges are reasonable business expenses and should be allowed to the extent that adequate documentation has been provided.