

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RECIPIENT CAPABILITY AUDIT AT
NATIONAL EMPOWERMENT CENTER, INC.**

The designation of financial management practices as questionable as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS operating divisions.



**JUNE GIBBS BROWN
Inspector General**

**DECEMBER 1997
A-01-98-01502**



Memorandum

Date : December 17, 1997

From : Regional Inspector General for Audit Services

Subject: Recipient Capability Audit at National Empowerment Center, Inc. (CIN: A-01-98-01502)

To : Ms. Nancy J. McGinness
Financial Advisory Services Officer, Substance
Abuse and Mental Health Services Administration

We are providing you with the results of our Recipient Capability Audit at National Empowerment Center, Inc (NEC), Lawrence, Massachusetts. The objectives of our audit were to: (1) determine whether NEC has established policies and procedures in accordance with financial management standards in Title 45 Code of Federal Regulations (CFR), Part 74, and, (2) address your specific concerns of whether: (a) NEC has in place adequate staff to ensure the segregation of various accounting functions, (b) it is reasonable for NEC to have the same policies relative to health and life insurance benefits for part-time employees as for those employees working full-time, (c) NEC's policies for paid time off are reasonable, and (d) costs allocated, including space rental costs, to the National Consumer Technical Assistance Project were reasonable, allowable and allocable in accordance with the cost principles contained in Title 45 CFR, Part 74.

We found that NEC does have Board of Director's By-laws; accounting and employee manuals; and a fire resistant safe to store valuable documents; and NEC has in place adequate staff to ensure the segregation of various accounting functions.

However, we have concerns with the design and operation of the NEC Board of Directors and NEC's internal control structure with respect to its financial system in the areas of policies and procedures on: accounting for and reporting on use of Federal funds; cash receipts; personnel, procurement and travel management. Relative to your concerns, we found that NEC's (1) fringe benefit policies are generally reasonable, except for health and dental insurance benefit policies for part-time employees hired before July 1, 1997, and (2) costs allocated to the National Consumer Technical Assistance Project were generally reasonable, allowable and allocable, except for the reasonableness of the bookkeeper's salary. The Board of Directors has agreed to take corrective action on each of the issues raised in this report.

INTRODUCTION

Background

The National Consumer Empowerment Center, Inc. (NEC) was incorporated July 1, 1997. Currently, NEC is administering only one federally sponsored agreement, the National Consumer

Assistance Project which transferred September 1, 1997. From April 1, 1992 through August 31, 1997, the National Technical Assistance Project was granted to and administered by the Northeast Independent Living Program, Inc. (NILP).

The staff who worked on the National Consumer Technical Assistance Project at NILP were transferred to NEC when NEC assumed responsibilities for the grant. In addition, the NEC has contracted to rent the same space from the NILP from September 1, 1997 through February 28, 1998 that it used prior to incorporating as a separate entity. NEC has not made plans for rental space after February 28, 1998.

According to NEC's literature, it provides a number of resources. The NEC has an information and referral service that consumers can call to receive information about consumer/survivor resources in their area, as well as about selected topics such as holistic alternatives to symptom management, how to form self-help mutual support groups, etc. Similar resources were provided when the National Consumer Technical Assistance Project was granted to NILP.

Scope

The objectives of our audit were to: (1) determine whether NEC has established policies and procedures in accordance with financial management standards in Title 45 Code of Federal Regulations (CFR), Part 74, and, (2) address your specific concerns of whether: (a) NEC has in place adequate staff to ensure the segregation of various accounting functions, (b) it is reasonable for NEC to have the same policies relative to health and life insurance benefits for part-time employees as for those employees working full-time, (c) NEC's policies for paid time off are reasonable, and (d) costs allocated, including space rental costs, to the National Consumer Technical Assistance Project were reasonable, allowable and allocable in accordance with the cost principles contained in Title 45 CFR, Part 74.

We reviewed the minutes of NEC Board of Directors' meetings, Articles of Incorporation, By-laws, accounting and personnel policy manuals, accounting and personnel records, bank statements, contracts, quarterly tax return for the period ending September 30, 1997, books of original entry and selected supporting documentation. We also reviewed the NILP's: audited Financial Statements for the year ended June 30, 1996 and Personnel Manual. Further, we referred to two salary surveys, *1998 Robert Half and Accountemps Salary Guide* and *1996 Operations Statistics* published by Harper and Shuman, and had discussions with NEC, NILP, and Substance Abuse and Mental Health Services Administration (SAMHSA) officials and two local real estate brokers.

Our audit covered NEC's current policies and procedures as of December 5, 1997 and transactions incurred from September 1 through November 12, 1997. We conducted our audit in accordance with generally accepted government auditing standards, and conducted our field work in November 1997 at NEC in Lawrence, Massachusetts. We discussed the results of our audit on December 5, 1997 with the NEC Board of Directors.

We did not review any of NEC's quarterly Federal financial reports as none have been submitted. The first report is due December 31, 1997.

This report is for use by the awarding agency to identify potential problems. The audit was neither intended to be a full scale "quality of recipient management" audit, nor was it intended that a formal audit report would be issued to NEC with fully developed findings and recommendations. Accordingly, we did not provide the NEC Board of Directors or NEC officials with a copy of our report.

Please apprise this office as to action taken based on the issues raised in this report.

RESULTS OF AUDIT

We have concerns with the design and operation of the National Empowerment Center, Inc. (NEC) Board of Directors and NEC's internal control structure with respect to its financial system in the areas of policies and procedures on: accounting for and reporting on use of Federal funds; cash receipts; personnel, procurement and travel management. We found that NEC's (1) fringe benefit policies are generally reasonable, except for health and dental insurance benefit policies for part-time employees hired before July 1, 1997, and (2) costs allocated to the National Consumer Technical Assistance Project were generally reasonable, allowable and allocable, except for the reasonableness of the bookkeeper's salary. The Board of Directors has agreed to take corrective action on each of the issues raised in this report.

BOARD OF DIRECTORS

The Board of Directors is organized in such a way as to raise serious questions as to whether it can meet its responsibilities as an independent governance body. Further, minutes of NEC's Board of Directors' meetings are not always recorded.

The Board of Directors is comprised of four members, of which two (50 percent) are also paid NEC senior management members. The President/Treasurer of the Board is also NEC's Executive Director, and the Clerk of the Board is also NEC's Director. This presents an independence issue between the Board of Directors and NEC senior management. In this regard, NEC's by-laws, Section 4, *Duties*, state:

"It shall be the duty of the directors to...(b) Appoint and remove, employ and discharge, and...prescribe the duties and fix the compensation, if any, of all officers, agents and employees of the Corporation; [and] (c) Supervise all officers, agents and employees of the Corporation to assure that their duties are performed properly...."

In addition and contrary to NEC's by-laws, the Board of Directors does not always record minutes to its meetings. Since the formation of NEC on July 1, 1997, the Clerk of the Board has

recorded minutes only for the meetings of September 9 and 10. In this regard, the NEC's by-laws provide that the Board "...shall seek to meet monthly...but shall in no event meet less frequently than every other month." The Clerk of the Board and the Director of NEC, apprised us that there have been numerous discussions and meetings among Board members, but " notes kept at home" have not been reduced to minutes.

FINANCIAL SYSTEM

In the financial systems category, we found internal control weaknesses relative to policies and procedures on: accounting for and reporting on use of Federal funds; cash receipts; personnel, procurement and travel management.

Accounting for and Reporting on Use of Federal Funds

The NEC has not established written policies and procedures relative to:

- ◆ Determining the reasonableness, allowability, and allocability of costs in accordance with Office of Budget and Management (OMB) Circular A-122, *Costs Principles for Nonprofit Organizations*,
- ◆ Preparing financial reports in accordance with Title 45 Code of Federal Regulations (CFR), Part 74, Sections 74.21 and 74.52, and
- ◆ Depositing and maintaining advances of Federal funds in insured accounts, whenever possible, in accordance with OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

Developing written policies and procedures are especially important due to the recent formation of NEC and its staff's inexperience with the fiscal aspects of administrating Federal funds. In this regard, prior to September 1, 1997, the financial aspects of the National Consumer Technical Assistance Project were administered by Northeast Independent Living Program, Inc. (NILP) staff. None of NILP's financial staff transferred to NEC, and NEC's bookkeeper and accountant do not have previous experience accounting for Federal grants.

The NEC's current accounting manual does not identify costs that are not allowable to Federal programs, and therefore, should not be claimed in Federal financial reports. We noted that NEC's accounting manual: (1) specifically allows entertainment expenses when OMB Circular A-122, Attachment B, Item 12 specifically states that entertainment and related expenses are unallowable costs, and (2) is silent with respect to fund raising activities even though the Executive Director's job description includes fund raising among his duties (OMB Circular A-122, Attachment B, Item 19.3.(b) specifically identifies fund raising costs as unallowable).

The lack of policies and procedures to identify unallowable expenses could result in the inappropriate allocation of costs to the Federal grant or reports not submitted timely.

We also found that NEC has no written policies and procedures to ensure that NEC maintains less than \$100,000 on deposit in a single bank account. Deposits in excess of \$100,000 in one account are not insured by the Federal Deposit Insurance Corporation.

Cash Receipts

The NEC does not have adequate segregation of duties with respect to the cash receipts function. The bookkeeper receives checks without the checks first being restrictively endorsed "For Deposit Only" to NEC's bank account. The bookkeeper is responsible for preparing deposit slips, posting transactions to the cash receipts journal and physically depositing monies at NEC's bank. NEC's accountant reconciles the books to monthly bank statements. We recognize that a proper segregation of duties can be difficult to achieve with a small staff. However, adequate segregation of duties requires that the functions of approval, record keeping and custody of assets be separated so that the likelihood of undetected errors and irregularities is minimized. We believe that NEC can achieve an adequate segregation of duties.

Personnel Management

We found that NEC paid someone as a consultant who should have been classified as an employee. Further, we found that NEC's timesheets do not provide a space for workload distribution among grants, and NEC has not established policies and procedures relative to overtime.

In our test of transactions, we found that one person, who was paid as a consultant, performed data entry work at NEC's office for \$10 per hour. No taxes were withheld from the "consultant's fee." NEC's accounting manual states that consultant "services are generally performed by persons who are members of a particular profession or possess a special skill." Data entry does not meet this requirement.

The NEC's timesheets do not provide a space for workload distribution among grants. While NEC currently has only one Federal grant and a small unrestricted grant (\$50,000) from a private foundation, NEC officials apprised us they are seeking additional funding. The establishment of a workload distribution system is needed for the allocation of time and effort to the Substance Abuse and Mental Health Services Administration (SAMHSA) grant and other projects.

In addition to the above, the NEC has not written its policies and procedures regarding the use of overtime. An NEC official pointed out they have not incurred any overtime expense.

Procurement Management

We found that NEC has no written policies and procedures which require the written justification for the award of large purchases, subcontracts and non-competitive purchases. Further, the contracts awarded to two consultants did not contain a contract termination clause to protect the interests of NEC and the Federal Government.

Travel Management

We found that NEC has an inadequate travel policy regarding overnight travel. The NEC travel policy does not require prior written approval and does not state approved rates for lodging. During our audit, NEC developed a form for use in prior approval of travel.

REASONABLENESS OF POLICIES

We found that NEC's health and dental insurance benefit policies for part-time employees hired before July 1, 1997 are not reasonable. However, we believe NEC's life and short-term disability insurance benefit policies may be reasonable. We also found that NEC's policy for paid time off is reasonable in terms of total days.

Health, Life, Dental and Short-Term Disability Insurance

The NEC Employee Manual provides that the employer's share of premiums paid is:

Eligibility	Health	Dental	Life	Short-term Disability
Full-Time (32-40 hours)	80%	80%	100%	100%
Part-Time (16-31 hours)	80% prorated to hours worked	80% prorated to hours worked	100%	100%
Part-Time (1-15)	0%	0%	0%	0%

Health and Dental Insurance - Contrary to its written policy, NEC does not prorate the health/dental insurance-premium payments for part-time employees (those working between 16 and 31 hours per week) hired before July 1, 1997. NEC officials apprised us that the proration policy will apply only to part-time employees hired after July 1, 1997 and that the written policy will be revised to reflect the effective date of July 1, 1997. NEC has hired only one employee since July 1, and she does not participate in the health or dental plans.

Relative to not prorating health/dental insurance premiums for part-time employees hired before July 1, 1997, the NEC Director apprised us that NEC's rationale is that it would represent a reduction in benefits for the part-time employees. We confirmed this by reviewing NILP's *Personnel Policy Statements* and through discussions with NILP officials.

While NEC may choose not to prorate the insurance paid for part-time employees, we do not believe it is reasonable to allocate to the Federal grant those insurance costs which NEC chooses not to prorate. This should be effective as of the beginning of the grant on September 1, 1997.

Life and Short-Term Disability Insurance - NEC pays 100 percent of life and short-term disability insurance premiums for all staff working at least 16 hours per week. The NEC Director apprised us that NEC's rationale is that due to pre-existing condition clauses in insurance policies most, if not all, of NEC's staff would be denied insurance coverage unless all premiums are paid by the employer. Regarding pre-existing conditions, NEC officials apprised us "all of NEC employees have either psychiatric disabilities or have experience as a mental health recipient." By NEC paying 100 percent of the premium, its staff is not required to fill out a health questionnaire or take a physical examination. As of the date of this report, NEC has not provided support for their statement regarding pre-existing condition clauses in insurance policies.

In light of the purpose of NEC and the Federal grant, we believe NEC's life and short-term disability insurance benefit policies are reasonable - if NEC provides you with support for their statement regarding pre-existing condition clauses in insurance policies.

Paid Time Off Policies

We believe NEC's policy for paid time off is reasonable in terms of total days. As shown in the table below, NEC's policy compares favorably with the leave policy, in terms of total days off (annual and sick leave), for full-time Federal employees.

Years of Service	NEC	Federal Government
Up to 3	22 days per year of personal time	26 days per year (13 days annual and 13 days sick leave)
More than 3 but less than 5	27 days per year of personal time	
More than 5 but less than 10	32 days per year of personal time	
More than 10	37 days per year of personal time	
More than 3 but less than 15		33 days per year (20 days annual and 13 days sick leave)
More than 15		39 days per year (26 days annual and 13 days sick leave)

Both the Federal government and NEC prorate paid time off for part-time employees.

NEC officials apprised us that "NEC uses the generic term "personal" for the combination of annual and sick leave. Almost all of NEC employees have either psychiatric disabilities or have experience as a mental health recipient. Rather having to call in "sick" or explain the need for a day off an employee may simply say that they are taking a day off."

REASONABLENESS, ALLOWABILITY AND ALLOCABILITY OF COSTS

Relative to your specific concerns of whether costs, including space rental costs, allocated to the National Consumer Technical Assistance Project were reasonable, allowable and allocable in accordance with the cost principles contained in Title 45 CFR, Part 74, we found NEC's costs incurred are reasonable, except for costs of health and dental insurance discussed on page 6 and for the salary of the bookkeeper discussed below. As discussed in the Accounting for and Reporting on Use of Federal Funds section of this report on page 4, the NEC's current accounting manual does not identify costs that are not allowable to Federal programs, and therefore, should not be claimed in Federal financial reports. While our transaction testing did not note any other incurred costs as not reasonable, allowable or allocable, NEC does not have a system in place to identify such cost should they occur.

Space Rental

We believe the rent NEC pays NILP is reasonable. While NEC is still located in facilities owned by NILP, the former grantee of the National Consumer Technical Assistance Project, NEC pays only \$1.09 per square foot (\$1,131 monthly for 1,035 square feet). The rental payment includes all utilities; taxes and assessments for the property; and use of 10 parking spaces. We contacted two real estate brokers who apprised us that office rental space in the Lawrence area varies between \$5 and \$12 a square foot depending on a number of factors including whether utilities and use of parking spaces are included. NEC officials apprised us they were considering relocating to a larger office when the current lease expires February 28, 1998. This will likely increase NEC's operating costs significantly.

Bookkeeper Salary Rate

The current bookkeeper is paid \$19.30 per hour. We do not believe this is a reasonable rate to charge Federal grants. A salary survey, *1998 Robert Half and Accountemps Salary Guide* shows the hourly starting salary range for bookkeeper/assistant for small firms nationally (up to \$25 million in sales) is \$10.54 to \$12.94 per hour. One of NEC's Board of Directors provided us with a salary analysis of Harper and Shuman's clients in architectural, engineering, and environmental consulting and interior design firms. This survey, *1996 Operations Statistics* shows that the typical salary for bookkeepers in the Northeastern U. S. was \$13.63 per hour in 1995. Assuming a three percent inflation factor, the 1998 salary for bookkeepers would be \$14.89 per hour. Whether using the Robert Half survey of starting salaries or the Harper and

Shuman survey of typical salaries in four industries as a bench mark, NEC's current bookkeeper's hourly salary of \$19.30 is not reasonable.

Prior to assuming these duties, the bookkeeper was paid \$16.30 an hour as an administrative assistant for the National Consumer Technical Assistance Project, when NILP administered the grant. Her duties included: translating/translation functions (Spanish); data entry/updating of mailing list; logging/tracking cash received; overseeing outgoing/incoming, compiling simple information and referral requests. NEC officials apprised us that the bookkeeper will spend between 50 percent and 70 percent of her time on bookkeeping duties and the remaining time on her previous duties as an administrative assistant.

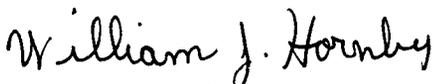
The NEC gave the bookkeeper a \$3 dollar raise, to \$19.30 per hour, when she assumed bookkeeping duties in October 1997. Whether one uses the Robert Half survey or the Harper and Shuman survey, the NEC administrative assistant was already earning more than most starting or "typical" bookkeepers prior to her raise. The raise brings the NEC bookkeeper's hourly salary from 129 percent to 183 percent of starting salaries of bookkeepers.

Considering that the current bookkeeper has had little prior experience as a bookkeeper, we do believe that it is not reasonable to charge Federal grants the full salary rate NEC pays its bookkeeper.

OTHER MATTERS

As stated earlier, the National Consumer Technical Assistance Project was administered by the NILP during the period April 1, 1992 through August 31, 1997. Officials at NILP apprised us that NILP is compiling an inventory of equipment purchased with project funds over the past five and a half years. NILP officials further apprised us that when the inventory is complete, they will contact the SAMHSA with regard to transferring the property, records and ownership of the equipment to NEC. NEC officials apprised us they have purchased inventory tags for use when ownership has been transferred.

Should you have any questions or require additional information, please contact Donald Czyzewski of our staff at (617) 565-2692. To facilitate identification, please refer to the Common Identification Number A-01-98-01502 in all correspondence relating to this report.


William J. Hornby