

DOCUMENT RESUME

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[Use of Federal Funds by the Counseling Center, Bangor, Maine]. HRD-78-33; B-164032(5). December 21, 1977. 2 pp. + enclosure (13 pp.).

Report to Sen. William D. Hathaway; by Morton E. Henig (For Gregory J. Ahart, Director, Human Resources Div.).

Issue Area: Health Programs (1200).

Contact: Human Resources Div.

Budget Function: Health: Health Care Services (551).

Organization Concerned: Counseling Center, Bangor, ME; Department of Health, Education, and Welfare.

Congressional Relevance: Sen. William D. Hathaway.

Authority: Community Mental Health Centers Act, as amended (P.L. 94-63).

A review of the use of Federal funds by the Counseling Center, Bangor, Maine, covered allegations regarding dual and overcompensation of Center employees, unauthorized expenditures, payment practices regarding terminated employees, handling of contributions, improper matching of Federal grants, and overstatement of charges to the Center's alcohol program. Findings/Conclusions: The allegations were found to be either unsubstantiated, did not involve Federal funds, or were isolated incidents. The Center did, however, overcharge the alcohol and the mental health grants by about \$81,000 primarily because of weaknesses in its financial management and payroll systems. Although Department of Health, Education, and Welfare (HEW) program officials were aware of these weaknesses, they did not require an adequate financial management system or perform an audit. The lack of audit, inadequate financial monitoring by HEW, and weak financial management have contributed to the Center's problems. Recommendations: The Secretary of Health, Education, and Welfare should: require that the overcharges discovered be recovered, require that an audit be made of the grants not covered by this review, and take actions to assure that the Center's financial management practices and procedures are adequate to reduce the possibility of such overcharges in the future. (SC)

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

December 21, 1977

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04600

HUMAN RESOURCES
DIVISION

B-164031(5)

The Honorable William D. Hathaway
United States Senate

Dear Senator Hathaway:

In response to your request of May 12, 1977, we have reviewed the use of Federal funds by The Counseling Center, Bangor, Maine, and examined into the list of allegations provided to us by your office regarding dual and over-compensation of Center employees; unauthorized expenditures; payment practices regarding terminated employees; handling of contributions; improper matching of Federal grants; and overstatement of charges to the Center's alcohol program. To obtain more information about these allegations, we talked with the individuals who made them. Some were able to provide us with more information. For the most part, however, it was of limited usefulness in our investigation. The allegations were either unsubstantiated, did not involve Federal funds, or appeared to be isolated incidents. The details of each are discussed in the enclosure to this letter.

We did find that the Center's financial management practices and procedures are inadequate--especially its time-keeping, payroll and cost allocation systems. Prior to July 1977, the Center did not segregate grant revenues and expenses by program. The Center's timekeeping system is still not used to support its payroll.

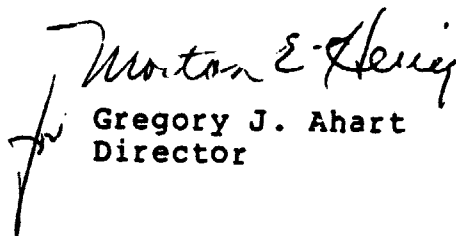
We also found that the Center overcharged Federal grants by about \$81,000 for the periods we reviewed. Most of the overcharge was caused by reporting as expenditures the amounts in the grant applications when the Center's actual expenditures were less. We are recommending to the Secretary of Health, Education, and Welfare (HEW) that the Department recover these overcharges and conduct an audit of grants not covered by our review to determine if additional overcharges have occurred.

HRD-78-33
(102514)

Since its first Federal grant in 1969, the Center has received about \$8.9 million in Federal grants, but has never been audited by HEW. The lack of audit and inadequate monitoring by HEW, coupled with the Center's weak financial management, have contributed to the problem. These matters were discussed with officials of the Center and of the HEW regional office in Boston, Massachusetts, who concurred with our findings. We also discussed our findings with HEW headquarters officials. As instructed by your office, we did not obtain written HEW comments on this report.

As arranged with your office, unless you publicly announce its content earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and will make copies available to others upon request.

Sincerely yours,


Gregory J. Ahart
Director

Enclosure

REVIEW OF THE USE OF FEDERAL FUNDS
BY THE COUNSELING CENTER
BANGOR, MAINE

INTRODUCTIONHistory and purpose of the Center

The Counseling Center, established in 1968, is a community mental health center headquartered in Bangor, Maine. The Center, a private, non-profit organization serves a population of about 206,000 in four Maine counties: Hancock, Washington, Penobscot and Piscataquis. About 85,000 in the Bangor area are served by the Bangor office. The rest of the population is served by branch offices in Millinocket, East Millinocket, Lincoln, East Machias, Ellsworth, Bar Harbor, and Dover-Foxcroft.

Since receiving its first Federal grant in 1969, the Center has been developing and conducting mental health programs. The Center has expanded its activities to meet the needs of alcoholics, children and the elderly.

Organization and staffing

An executive director is responsible for supervising the Center's programs: alcohol, children, health, and mental health. Each unit is headed by a program director. These units are organized along departmental lines and are located in the Bangor area. The branch offices are organized slightly differently with program specialists accountable to a branch operations director and to their respective program unit directors. As of June 24, 1977 the Center had 289 employees, as follows.

Administration and Support Services		27	
Finance		10	
Mental Health Services		86	
Alcohol Services		9	
Children's Services		18	
Health Services		39	
Branch Operations			
Ellsworth	41		
Bar Harbor	2		
Dover-Foxcroft	23		
East Machias	12		
Lincoln	10		
Millinocket <u>1/</u>	<u>12</u>		<u>100</u>
			<u>289</u>

1/Includes East Millinocket

Funding

As shown below, from July 1, 1969 through June 30, 1977, the Center has received a total of about \$8.9 million from the Department of Health, Education, and Welfare's (HEW) National Institute of Mental Health (NIMH) and National Institute on Alcohol Abuse and Alcoholism (NIAAA). About \$7.9 million of these funds had been expended as of June 30, 1977.

<u>Type of grant</u>	<u>Date of initial award</u>	<u>Total amount</u>	
		<u>Awarded</u>	<u>Expended as of 6/30/77</u>
Basic mental health (note a)	7/1/69	\$3,275,511	\$3,253,116
Alcohol (note b)	1/1/71	2,668,189	2,357,979
Mental health growth	9/1/72	1,084,648	932,037
Children's services	5/1/74	1,661,910	1,251,683
Conversion (note c)	7/1/76	<u>221,520</u>	<u>83,283</u>
		<u>\$8,911,778</u>	<u>\$7,878,098</u>

a/The eighth year of the basic mental health grant terminated on June 30, 1977.

b/The alcohol grant will terminate at the end of the seventh year on December 31, 1977. NIAAA did not fund the eighth grant year because no plan was developed for local takeover of the program after Federal funding ceases.

c/Conversion grants are to assist centers funded prior to enactment of Public Law 94-63 to expand the range of their services to include the 12 services mandated by that act. The grants are limited to the amount of the operating deficit attributable to providing the additional services. These grants may be received for 3 years.

With the exception of the conversion grant all of the above listed grants are to pay for a portion of the cost of staff to provide specified services. Staffing grants are awarded for 1-year periods to meet a portion of the compensation costs for professional and technical staff engaged in providing mental health and alcoholism services. A maximum of eight annual grants may be awarded. The Community Mental Health Centers Act, as amended, limits Federal participation in staffing

grants for poverty areas 1/ to 90 percent of eligible personnel costs during the first 2 years, decreasing to 70 percent participation during the last 3 years. Conversion grants may be awarded for a maximum of 3 years and are limited to projected deficits in operating costs incurred to provide new mental health services required by Public Law 94-63.

The Center's calendar year 1977 budget is about \$3.5 million of which about \$1.2 million are Federal funds. Major program areas of the budget are as follows:

<u>Program</u>	<u>Budget</u>	<u>Percent</u>
Mental Health	\$2,125,096	61
Health Services	677,254	19
Children's Services	387,754	11
Alcohol	<u>299,157</u>	<u>9</u>
Total	<u>\$3,489,261</u>	<u>100</u>

About 80 percent of the budget is used for salaries and fringe benefits.

SCOPE OF EXAMINATION

We interviewed Center, HEW, State of Maine and local officials and reviewed Center and HEW records and correspondence. We also reviewed and tested the Center's payroll and timekeeping procedures. We analyzed payroll charges to the alcohol grant for 1 month in 1975 and 1 month in 1977 to determine if individuals whose salaries were charged to the grant actually worked on the grant and whether the charges were reasonable. We discussed the report with Center, State and HEW officials and have incorporated their comments in the report.

ALLEGATIONS OF THE MISUSE OF FEDERAL FUNDS

Dual and overcompensation of employees

It was alleged that Federal funds were used to pay a Center employee twice for the same period of time. No information was available about who was involved or when the

1/The Center's service area is a designated poverty area.

alleged overpayment took place. Our review of payroll records, wage and tax statements, and grant records did not uncover any dual salary payments.

It was also alleged that the former director of a branch office was paid under three different names. The individual was in charge of the branch office from January 1970 to June 1976 when he was laid off because of a reorganization. Again, we found no one who had any specific information on the allegation and no evidence was found to substantiate it.

A third allegation was that an employee earning \$150 was listed on the records as earning \$300. Payroll records and tax forms showed that this employee earned about \$300 per bi-weekly pay period, or \$150 per week. The employee knew nothing about the allegation and his salary was paid from local and not Federal funds. In summary, there was no substance to this allegation.

Tires purchased with Federal funds

A former employee working on the Center's alcohol program was alleged to have purchased five new tires for his private automobile with Federal funds. We found that the individual did purchase five tires. The tires were charged to and paid for by the Center. The individual, after being reported by a fellow employee, reimbursed the Center for the tires. Federal funds were not involved because the alcohol grant was for staffing costs only.

Termination pay practices

One Center employee allegedly continued to collect a salary for several weeks after being fired. The employee worked for the Center from April 1, 1974 to April 19, 1974. Payroll records and tax forms showed that the employee earned about \$252 for the 2-1/2 weeks he worked. His name continued to be listed on the Payroll Earnings Register for the rest of the calendar year, but he was only paid for the 2-1/2 weeks he worked. Center officials emphasized that this is a normal payroll procedure.

We also noted several instances where employees dismissed by the Center continued to collect pay following their dismissal. Center officials explained that these employees were given 2 to 4 week notices of terminations and were asked not to work during the period of their notices because their presence was considered disruptive to the Center.

Overstating contributions

In April 1977, the Bangor Daily News reported that a former employee of the Center issued a \$1,000 contribution receipt to an individual who actually made a \$200 contribution. The records show that in March 1976, the Center received a \$1,000 donation. The following month, the Center's former chief accountant sent a letter to the contributor thanking him for the \$1,000 donation. On the same day the chief accountant issued a \$750 Counseling Center check to the contributor. Therefore, the net contribution was only \$250. The director of finance advised us that when he confronted the former chief accountant about this he was told that it was done as a way to raise money for the Counseling Center. The director advised us that he told the employee never to do it again or he would be fired.

To determine the extent that contributions were overstated, we reviewed cash receipts and disbursements for January 1975 through June 30, 1976. Total contributions received by the Center during the 18-month period was about \$1,660 which included the \$1,000 contribution. Based on our review of receipts and disbursements, the incident appears to be isolated, and involved only the former chief accountant.

Matching Federal funds
with Federal funds

Another allegation was that the Center used Federal funds to match Federal grant funds. The Federal participation in the Center's alcohol and mental health staffing grants, which account for most of the Federal grant funds received by the Center, ranged between 70 and 90 percent of allowable costs. Local matching is the difference between the Federal share of project cost and total project cost.

For fiscal years 1974 through 1976 the Center had total income of about \$9.1 million. During this period Federal staffing grants amounted to about \$3.8 million or 42 percent of total income. The other primary sources of income were the State of Maine and Medicaid and Medicare fees. Thus, the Center had sufficient local funds to match Federal funds and there appears to be no substance to the allegation.

Overstatement of charges
to alcohol program

The former director of the Center's alcohol program alleged that in the fifth year of the Center's alcohol grant (calendar year 1975), Center officials overstated the Report of Expenditures submitted to NIAAA. We found that the Center did initially charge the grant for staff who did not perform alcohol-related services.

The original Report of Expenditures for the fifth year of the alcohol grant showed total expenditures of \$355,051 chargeable to the Federal grant. This report was dated June 9, 1976, more than 5 months after the end of the budget period. When the report and supporting documentation were being reviewed by the former alcohol program director, he questioned charges to the grant for staff who did not work on the program. The Center then revised the report and submitted it to NIAAA over 1 year after the end of the budget period. The revised report was \$30,578 less than the original one. Despite this reduction we found that the grant was still overcharged by \$15,000. (See page 8.)

INADEQUATE FINANCIAL MANAGEMENT
AND PAYROLL SYSTEMS

The Center's financial management system, including payroll and timekeeping procedures, is inadequate. In a letter dated March 3, 1976, the Center's certified public accountant (CPA) firm notified the officers and directors of the Center that confusion and lack of direction for financial functions could lead to a complete loss of control over accounting and financial operations. The Center's financial operation had deteriorated to the point that the CPA firm was "extremely concerned about the ability of the Counseling Center to manage its accounting operations and its day to day financial affairs." The CPA firm recommended that the Center hire a finance officer to (1) immediately reorganize the business office, (2) modify the accounting system to ensure proper financial reporting, and (3) resolve any internal accounting control problems.

For fiscal years 1975 and 1976 the CPA firm issued a qualified opinion on the Center's financial statements and operations. One reason for this was that the Center's accounting system did not properly segregate revenue and expenses by program.

Most of the financial management problems were caused by the inability of business office personnel to handle increased funding and grant responsibilities. According to the Center's executive director, the former business manager was unable to cope with financial management problems as the organization grew and funding levels increased.

A new director of finance was hired in April 1976. He told us that the Center was technically bankrupt when he took over in April 1976. Creditors were threatening to shut off essential services. He spent his first 6 months re-organizing the business office, reconstructing the accounting records, and restoring the Center's financial credibility. To reduce expenditures, 23 staff members were laid off, salaries were frozen, and a \$300 per employee professional development fund was reduced to \$1,000 per department.

According to the director of finance, the business office did not have adequate procedures for classifying and recording financial data. The director said that progress had been slow in attempting to institute new financial and internal control procedures.

The Center's timekeeping system is not tied into its payroll system. Hourly employees and health service nurses are the only employees whose salaries are dependent on the submission of a certified time and attendance report. For regular employees there is no relationship between time and attendance reporting and payroll. According to the director of finance few controls exist over vacation and sick time.

According to an NIAAA official the Center needs to consolidate time reporting procedures and the payroll system to establish better management control. An HEW official told us that HEW assumes that grantees have a time and attendance system which will properly account for the amount of time an individual spends under a Federal grant.

GRANT OVERCHARGES

Our review disclosed that the Federal alcohol and mental health staffing grants awarded to the Center were overcharged by at least \$80,774. Since we did not review all periods of time covered by the grants or all charges to the grants, it is possible that other overcharges may also have occurred. The overcharges occurred primarily because incorrect percentages of Center employees' time were charged to the grants, costs were charged when positions were vacant, and budgeted rather than actual costs were charged to the grants.

Because of the allegations involving the fifth year of the Center's alcohol grant (see p. 6), we reviewed the grant for that year to determine the validity of the grant charges. To determine the extent to which the situation still existed we selected June 1977 for further review. We also reviewed documentation supporting expenditures for the first 4 years of the mental health staffing grant and the first 3 years of the alcohol staffing grant because it appeared highly unusual that expenditures would exactly equal the amount awarded as indicated by grantee records. Overcharges for these periods were as follows:

<u>Grant year</u>	<u>Program</u>	<u>Overcharges</u>
5	Alcohol	\$15,000
7	Alcohol	<u>a/ 1,138</u>
1	Alcohol	21,039
2	Mental Health	<u>43,597</u>
		<u>\$80,774</u>

a/Our review covered the month of June 1977 only.

These overcharges are discussed in greater detail below.

Alcohol staffing grant

Allowable charges under the alcohol staffing grant are salaries and fringe benefits of employes in approved grant positions. Since the start of the grant in 1971, approved positions have been staffed by full- and part-time Center and non-Center employees.

Non-Center employees are paid by their respective organizations but their salary costs are allowable charges to the grant because they perform work related to the grant. Between 1971 and October 1975, salaries paid to Bangor Mental Health Institute (a State-operated mental hospital) employees have been charged to the alcohol grant. Since October 1975, salaries paid to Eastern Maine Medical Center employees also have been charged to the alcohol staffing grant. According to Center correspondence and the Center's executive director, NIMH and later NIAAA allowed the Center to charge these costs to the grant and count these costs toward the local share of

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total grant costs. These costs make up most of the Center's local share requirements.

Prior to October 1975, Bangor Mental Health Institute employees performed alcohol services at the hospital's alcohol rehabilitation unit. The unit director, a Center employee, was in charge of employees assigned to the unit. In October 1975, the Center transferred rehabilitation services to the Eastern Maine Medical Center. The transfer was made because of the poor physical condition of the Mental Health Institute building and the Medical Center's interest in continuing such services at the completion of the alcohol grant in 1978.

Overcharges in 1975

We reviewed Mental Health Institute charges for the period January through October 1975 when the Medical Center took over the Mental Health Institute's functions. During this period the Center did not coordinate with the Mental Health Institute to obtain actual salary data, names of employees, or number of employees assigned to the Mental Health Institute. The Center made arbitrary decisions each month on amounts to charge the grant and charges were made when:

- a position was not occupied,
- different employees from those shown on records did grant work, and
- no services were rendered.

We estimate that the Center overstated total Mental Health Institute charges by about \$20,000--the Federal share (75 percent) amounts to about \$15,000.

The Center's executive director agreed that personnel should not be charged to the grant unless they are working on the grant. He said the overcharges were the result of a lack of coordination between the Center and the Mental Health Institute and an inadequate financial reporting system in 1975. He added that because of the transfer of rehabilitation services to the Medical Center there could have been some confusion on the date Medical Center charges should be made to the grant. He believes no such communication problem exists between the Center and the Medical Center.

Our review of June 1977 charges indicates the Center has improved its monitoring of Medical Center charges. The Medical Center provides the Center monthly statements of personnel charges and fringe benefit costs.

Overcharges in June 1977 due to
improper allocation of time charges

Our review of June 1977 charges to the alcohol grant showed that the Center charged salaries and fringe benefits to the grant based on time allocation percentages set forth in the grant application, and not actual time expended on grant work. In some instances there was little relationship between time charged and actual time spent on alcohol grant work.

Three of nine employees we interviewed said they spent considerably less time on alcohol work than indicated in the grant application. One position listed as a full-time research specialist on the grant application was filled by the Center's manager for data processing. This employee estimated about 25 percent of her time is devoted to the alcohol grant. Two other employees listed as spending 25 percent of their time on grant work said they spend about 10 percent of their time on alcohol-related work. Grant charges for these three employees were \$1,632 instead of \$494 which covers the time they estimated they worked on the alcohol grant. Thus, the alcohol grant was overcharged about \$1,138.

The problem of overcharges caused by improper time charges to the grant is not new. NIAAA in its 1974 visit report noted:

"Of the 33 total alcoholism positions 16 are basically administrative staff of the Counseling Center and are paid for 50 percent of their time out of the alcoholism staffing grant. The persons in these positions are spending 10 percent of their time or less on alcoholism program-related problems. An imbalance exists in which the alcoholism staffing grant relatively excessively supports the administrative staffing of the total program."

NIAAA noted similar improper allocations during their August 1977 site visit. NIAAA also questioned the amount of time charges for management, supervisory and administrative personnel who spend less than 100 percent of their time on alcohol grant work.

We believe the June 1977 overcharges are partly the result of the Center not having a procedure to verify whether employees whose total salaries are paid by the alcohol grant actually worked in the alcoholism program. As previously discussed there is no reconciliation between the payroll and the timekeeping systems.

Overcharges in early
grant years

We reviewed documentation supporting expenditures for the first 4 years of the mental health staffing grant and for the first 3 years of the alcohol staffing grant because the amount expended equaled the amount awarded. This did not occur in the later years of these grants. The Center overcharged the first year of the alcohol grant by \$21,039 and the second year of the mental health grant by \$43,597.

The Center's first alcohol grant amounted to \$383,048 for the period January 1, 1971 to December 31, 1971. The Center reported Federal expenditures of exactly \$383,048 for this period. According to available documentation, however, the Federal share of costs charged to the grant during the year totaled only \$362,009 or \$21,039 less than was reported to HEW.

For the period July 1, 1970 to June 1971 the Center was awarded a total of \$429,503 for the second year of the mental health staffing grant, and reported Federal costs of exactly \$429,503. Available documentation showed that the Federal share of costs charged to the grant totaled only \$385,906 or \$43,597 less than reported to HEW.

The Center's executive director could not offer any explanation to disprove the overcharges. He did question the ability of the former business office manager who was responsible for preparing the schedules and cost reports. He also said that in early years the reporting system was inadequate and lacked the necessary controls.

The supporting documentation for early year expenditures was limited and questionable. No one was able to explain what the figures represented, and the schedules contained numerous unexplained changes to names and amounts. The director of finance said that he questioned the validity and accuracy of the Center's documentation because of the loose system of cost reporting. He further stated that Federal funds were not always segregated and accurately recorded.

It was not until July 1, 1977, that Federal grant income was segregated from other income.

In reviewing early grant files we found a letter from NIAAA to the then executive director of the Center requesting additional justification and information regarding the Center's third year alcohol staffing grant application. The executive director requested that the alcohol program director and the business manager answer NIAAA's questions. He stated in a memorandum that the business manager "will also have to invent sources of funds in some way and those should just be sort of approximations with some narrative, to go with them." We believe this was indicative of the attitude of Center officials in dealing with Federal funds at that time.

LACK OF HEW AUDIT AND LIMITED TECHNICAL ASSISTANCE

The Center has been receiving Federal funds since 1969 but has never been audited by a Federal agency although it has received \$8.9 million in HEW grants. Prior to 1975 the Center received almost no technical assistance from HEW because HEW regional staff lacked the financial expertise to assist grantees and the staff's workload consisted primarily of processing paperwork. The HEW Regional Grants and Contract Branch was not established until 1975, and even now Region I has only one financial analyst who is responsible for reviewing the financial management capabilities of grantees and providing technical assistance for 250 grants. Since 1975, HEW has visited the Center about 6 times.

In November 1976 the Grants and Contracts Branch requested the HEW Audit Agency to audit the Center. It advised the Audit Agency that the Center's accounting system did not properly segregate expenditures by grant programs. Thus, unallowable costs could have been charged to Federal grants. Assistance from the Audit Agency never materialized because of its workload. An HEW audit in the early grant years would likely have uncovered the weaknesses described in this report and may have prevented at least some of the overcharges.

CONCLUSIONS

Most of the allegations were unsubstantiated or did not involve Federal funds. The Center, however, overcharged the alcohol and the mental health grants by about \$81,000, due primarily to weaknesses in its financial management and payroll systems. Although HEW program officials were aware

of these weaknesses, they did not require an adequate financial management system nor was an audit performed. We believe that the financial management system, including payroll and timekeeping procedures, needs to be improved.

RECOMMENDATION TO
THE SECRETARY OF HEW

We recommend that the Secretary, HEW

- Require that the overcharges discussed in this report be recovered.
- Require that an audit be made of the grants not covered by our review.
- Take actions to assure that the Center's financial management practices and procedures are adequate to reduce the possibility of such overcharges in the future.