



STATE OF NORTH CAROLINA

SPECIAL REVIEW

AUTISM SOCIETY OF NORTH CAROLINA

RALEIGH, NORTH CAROLINA

AUGUST 2008

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Mr. Whitney Jones, President, Board of Directors, Autism Society of North Carolina

Pursuant to North Carolina General Statute § 147-64.6(c) (16), we have completed a special review of the Autism Society of North Carolina. The results of our review, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with North Carolina General Statutes § 147-64.6 (c) (12) which requires the State Auditor to provide written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr. CPA, CFP
State Auditor

August 21, 2008

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INTRODUCTION

The Office of the State Auditor received an allegation through the State Auditor's Hotline concerning the financial performance of the Autism Society of North Carolina. During the fiscal year ended June 30, 2007, the organization faced financial difficulties that required the organization to liquidate assets to meet payroll obligations. The financial performance of the organization during that year also resulted in the organization dismissing a number of employees.

To conduct our review of these allegations, we performed the following procedures:

- Examination of relevant documents and records of the organization.
- Interviews with employees, former employees, management, board members and state agency personnel responsible for overseeing grants awarded to the organization.
- Review of applicable North Carolina General Statutes related to appropriated funding requirements.

This report presents the results of our special review. The review was conducted pursuant to North Carolina General Statute § 147-64.6 (c) (16) rather than as a financial or performance audit. The Autism Society of North Carolina receives an annual financial audit conducted by an independent CPA firm.

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BACKGROUND

What is Autism?

According to the US Department of Health and Human Services Centers for Disease Control (CDC) and Prevention, autism is one group of disorders known as autism spectrum disorders (ASDs). ASDs are developmental disabilities that cause substantial impairments in social interactions and communication and the presence of unusual behaviors and interests. Many people with ASDs also have unusual ways of learning, paying attention, and reacting to different sensations. The thinking and learning abilities of people with ASDs can vary from gifted to severely challenged. An ASD begins before the age of three and lasts throughout a person's lifetime.

ASDs include autistic disorder, pervasive developmental disorder-not otherwise specified (PDD-NOS, including atypical autism), and Asperger syndrome. These conditions all have some of the same symptoms, but they differ in terms of when the symptoms start, how severe they are, and the exact nature of the symptoms. The three conditions along with Rett syndrome and childhood disintegrative disorder, make up the broad diagnosis category of pervasive developmental disorders.¹

Autism Society of North Carolina

The Autism Society of North Carolina, Inc. (Autism Society) is a non-profit organization founded in 1970 with the objective to serve as advocates for individuals and families and provide ongoing education for the public about the needs of the autism community. The organization was formed by a group of parents, professionals and friends of persons with autism who were concerned about the lack of diagnostic and treatment services available.

The Autism Society works with various agencies in North Carolina to develop early childhood education, public school education, respite care, summer programs, recreation programs, group homes, job coach services and social skills training groups for people with autism. The organization has regional community services and advocacy offices throughout the state and is governed by a board of directors.

The Autism Society also has an affiliated organization, The Autism Foundation of North Carolina, Inc. (The Autism Foundation) which is also a 501(c)(3) non-profit organization whose purpose is to raise money for a permanent campsite and to facilitate services for people with autism. The affiliated organization is governed by the same board of directors as the Autism Society.

Since 2003, the Autism Society has received government funding totaling \$45,138,838 (see Attachment A) composed of an annual appropriation and payment for services rendered through Medicaid and the State Mental Health Program. According to the "Scope of Work" contained within the Autism Society's state appropriation contract, the goal of the funding is "...individuals with Autism Spectrum Disorders and their families will receive the supports and services that they need in order to maintain their ability to remain and participate in their communities."

¹ According to the CDC's Autism and Development Disabilities Monitoring Network, data released in 2007 found that about one in 150 eight-year-old children in multiple areas of the United States had an ASD.

BACKGROUND (CONCLUDED)

The Autism Society currently has 150 full-time, 350 part-time and 70 temporary employees (summer camp) led by a management team based in Raleigh. The Autism Society is a statewide organization with facilities in Asheville, Greenville, Greensboro, Laurinburg, New Bern, Fayetteville, and Charlotte.

The Autism Society provides a variety of services described as: Advocacy Services (parent mentoring, workshops, etc.), Community Services (periodic one-to-one training), Summer Camp, Day Options and Programs and Small Business Models (that instruct others to provide similar services).

The Autism Society is overseen by a 20-member board of directors that includes an executive committee of a president, first vice-president, second vice-president, secretary and treasurer. Each board member serves a three-year term with a limit of two terms. Members of the executive committee are elected to serve one-year terms. The President is limited to no more than two consecutive terms.

FINDINGS AND RECOMMENDATIONS

1. AUTISM SOCIETY MANAGEMENT AND BOARD DID NOT PROPERLY MONITOR FINANCIAL OPERATIONS.

During the fiscal year ended June 30, 2007, a revenue shortfall of \$1,263,055 from budgeted projections was the primary cause of a decrease in net assets of \$1,507,174 for the year. As a result, The Autism Society had to liquidate assets to meet current obligations (including payroll).

The shortfall in budgeted revenue resulted from a variety of causes that included:

- Failure to consider the effect of unfunded program activities when developing the budget;
- Overestimating the amount of contributions; and,
- Overestimate of services revenue due to changes in state mental health payment rates that included a write-off for services already provided that were ultimately not covered by the state mental health program.

In addition, in November 2006, the Autism Society received notification from the US Department of Labor that the organization had violated aspects of the Fair Labor Standards Act (FLSA) in paying overtime to employees. Ultimately, the Autism Society was required to re-pay \$191,840. The possibility of this liability became known to the organization early in the fiscal year but no consideration was given to determining the amount or potential effect of the liability until the end of the year when payment was due.

Our review determined that there was a general lack of financial oversight from the board of directors and a breakdown in communication between the board of directors as well as within management. This situation was present in the preceding years also but only came to light during the 2007 fiscal year.

In December 2004, the Autism Society hired its first full-time Director of Finance who was to oversee the accounting function and preparation and administration of the budget. The Director of Finance was a licensed CPA and had over 11 years of experience in the accounting field.

The Director of Finance worked with staff in Raleigh and at the various regional offices to develop the budget. The Director of Finance was given responsibility for the budget and prepared the budget for 2006 and 2007. Autism Society management indicated that the budget process was a somewhat collaborative effort of the Autism Society leadership. However, it was expected that the new Director of Finance would take the lead on the budget's development and monitoring throughout the year.

Prior to the creation of the Director of Finance position, preparation of the budget was the primary responsibility of the Executive Director and Director of Operations. According to the Executive Director, she felt "relief" that now there would be another employee responsible for financial issues within the Autism Society. Even though the Director of

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finance was new to the organization, the Executive Director spent little time reviewing the budget prepared by the Director of Finance. The budget was also reviewed by a finance committee composed of various board of directors prior to submission to the full board for approval.

According to the Director of Finance, the issue of only having a small budgeted cash surplus was brought up to the Autism Society leadership team with a recommendation to consider additional cuts in expenses. According to a budget summary report that was presented to the Board of Directors on August 25, 2006 and approved, the budget projected a \$23,894 surplus and projected a 24.2% increase in revenue.

The Director of Finance indicated that she was aware of a possible revenue shortfall due to a non-recurring grant that had not been approved in the current year and discussed that with the leadership team. The Director of Finance said, however, that she was not in a decision-making position and only provided information.

At a May 20, 2006 board meeting, the Executive Director informed the board that the Autism Society had received a \$300,000 non-recurring grant in the previous year and “the goal” was to receive \$500,000 in the coming year. However, that grant was not approved by the General Assembly and expenses associated with the programs that it would have funded remained in the budget.

We reviewed monthly reports detailing the financial operations of the Autism Society throughout the year and determined that a growing deficit situation was apparent from the outset. At mid-year, the deficit was \$439,116. The Director of Finance said that the Executive Director was made aware of the situation and no action was taken. We were provided copies of emails dated early in the fiscal year from the Director of Finance to the Executive Director discussing the budget deficit. When we interviewed the Executive Director and showed her copies of the emails, she said that she had never received the emails.

In addition, we reviewed financial summaries and board meeting minutes and determined that the Board of Directors received a quarterly presentation by the Director of Finance and the Executive Director summarizing the financial operations. Copies of financial summaries furnished to board members at their quarterly meetings reflected the growing budget deficit. However, when we interviewed members of the Board’s finance committee, they indicated that the financial situation was never presented as a significant problem and the deficit was considered under control until it became a crisis situation.

We reviewed the audit report furnished to the Board of Directors by the organization’s independent auditor. In correspondence included with their report, it states: “In 2007, the organization and its affiliate suffered a loss totaling \$1,507,174. This is the sixth consecutive year in which expenses have exceeded revenues.” According to Autism Society management and the independent auditor, the external auditors also had previously discussed the prior year’s deficits with the Board of Directors when their audit reports were presented to them.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Treasurer of the Board of Directors stated that he was concerned with monitoring the cash available as opposed to the financial statement deficit and felt that there was ample cash available. He said that previous deficits were partially the result of booked depreciation so he did not think it was a big problem. The Treasurer also said that he believed at the time that some of the deficit was caused by a billing issue with the State for mental health services rendered that would correct itself in time.

The President of the Board of Directors said that the gravity of the financial situation only came to light in June 2007 when it was revealed that the organization was in danger of not being able to meet its payroll obligations. At that time, the Board learned that the organization's line of credit was maximized and the Director of Finance and Executive Director had liquidated assets of the foundation without board approval. The President said that, when learning of the financial situation, the Board's immediate priority was to meet payroll and then cut expenditures and consider personnel layoffs. The Board also instituted policies to ensure that all expenditures were approved by the Board of Directors.

As a result of the financial crisis, the Director of Finance was dismissed on August 7, 2007, and the Executive Director resigned on November 7, 2007. Seven additional employees were laid-off to decrease costs.

Based upon our review, we did not find any evidence that suggests wrong-doing or misappropriation of funds. In fact, one of the causes of the deficit was the providing of unfunded services that were consistent with the organization's mission. However, we believe that there was a significant lack of oversight of the organization's financial operations. This was caused in part by a lack of communication within and between management as well as with the Board of Directors.

We also believe that the Board of Directors did not take appropriate action to address what was a growing problem of annual deficits that were repeatedly communicated to them by the Autism Society's independent auditor. The Board of Directors also did not appear to be engaged to the point of asking appropriate questions and following up on issues related to the financial condition.

Responsibility for the success or failure of a non-profit organization rests dually with management and with the board of directors. While management takes responsibility for the operations, one of the basic responsibilities of a board of directors is to provide oversight for the assets of the organization. This duty is often given the least amount of attention by boards due to a focus on the organization's mission and the unfamiliarity of board members with financial statements and other business-related issues. Unfortunately, without sufficient management of resources, no organization can continue to perform its mission.

The Autism Society has experienced a great deal of growth in recent years and currently has an \$11million budget composed primarily of taxpayer funding (see Attachment A). This organization now needs to have trained, qualified personnel to manage the financial operations in a professional manner to ensure that state appropriated tax dollars are used

FINDINGS AND RECOMMENDATIONS (CONTINUED)

in an efficient, effective manner that will ensure the continuation of services for this important cause.

RECOMMENDATION

We recommend that the Autism Society take action to implement a more formalized budget process that seeks greater input from the organization's managers. In addition, the ongoing financial operations of the organization should be closely monitored throughout the year and adjustments made for shortfalls in revenue and/or unexpected liabilities as they occur. Monthly financial operational decisions should be communicated in detail to the Autism Society finance committee for input and approval.

In addition, all Autism Society board members should take part in training offered by the Office of the State Auditor Non-Governmental Division related to the roles and responsibilities of board of directors for non-profit organizations. The course is designed for board members who want a better understanding of the fiduciary responsibilities of board of directors under North Carolina General Statutes.

2. THERE EXISTS INADEQUATE CONTROLS OVER CREDIT CARDS.

During our review, we determined that the Autism Society has 35 credit cards issued directly to various Autism Society employees or available for use by employees with a total credit limit associated with these cards of \$100,000. For the period July 1, 2006 through June 30, 2007, charges associated with these cards totaled \$348,487.62 for an average of \$29,040.64 per month.

According to Autism Society management, these cards are issued to various regional directors, managers and other key personnel to use at their discretion for operating expenses incurred while carrying out Autism Society business. The credit cards are typically used for travel-related expenses or purchases required to operate various residential homes, summer camps, etc. around the state.

Policies we reviewed related to these credit cards indicated that each card-holder was authorized to incur charges up to each card's approved limit, from \$500 to \$8,000. One card that is available for employees to check out and use for large purchases has a credit limit of \$35,000. Also, if a purchase exceeds a limit of \$200, supervisory approval is required.

Each individual is responsible for providing the credit card statement along with any supporting documentation to the Autism Society main office on a monthly basis. However, we reviewed a sampling of monthly credit card statements and supporting documentation and we determined that, in some instances, credit card statements lacked adequate supporting documentation and/or a clear business-related description for the charges incurred. We also noted charges in excess of \$200 that did not include supervisor approval in accordance with Autism Society policy.

RECOMMENDATION

We recommend that the Autism Society consider strengthening its policy related to the use of credit cards. Greater controls should be in place to ensure that all charges are supported by adequate documentation that includes dates, vendor, purpose of expense, and any required approval needed.

In addition, we recommend that Autism Society management contact the Office of the State Auditor Non-Governmental Division to consider training available related to recommended documentation requirements and internal control methods.

3. THE DIRECTOR OF FINANCE'S CREDIT CARD WAS USED FOR INAPPROPRIATE ITEMS.

We reviewed the credit card statements submitted by the Director of Finance for the period December 2005 through June 2007. We determined that there had been routine charges for items such as "staff appreciation" lunches, "birthday part(ies)" "baby shower(s) for staff," and "staff meeting(s)" that were held at various area restaurants. The charges related to a combination of meals and gift items provided for accounting staff under the Director's supervision. These questionable charges totaled \$2,673.56.

The Director of Finance indicated that she believed that the charges were appropriate rewards for her staff that were putting in long hours working on the financial records of the organization and that at no time were any charges made for her own personal items. Interviews with Autism Society staff confirmed that the lunches and gifts were a routine occurrence.

While rewarding employees for their work efforts can be an effective motivating tool, it is inappropriate to use state funds intended for use in fulfilling the Autism Society's mission in this manner.

RECOMMENDATION

We recommend that management provide instruction to employees regarding the appropriate types of expenses that should be incurred by the organization. We also recommend that management consult with the Office of the State Auditor Non-Governmental Division regarding available training for identifying allowable and unallowable costs related to non-profit organizations.

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Attachment A

Autism Society of NC Summary of government funding

| Year | Autism Society Appropriation | Pass-Thru Grant | Special Appropriation | Dept of Justice Mylan Grant | Payment for Services² | Total |
|-------------|---|----------------------------|----------------------------------|--|---|---------------------|
| 2003 | \$ 2,792,960 | \$ 50,000 | | | \$ 5,080,365 | \$ 7,923,325 |
| 2004 | 2,792,964 | 50,000 | | | 5,344,510 | 8,187,474 |
| 2005 | 3,092,960 | 50,000 | | \$ 21,250 | 6,029,197 | 9,193,407 |
| 2006 | 3,092,960 | 50,000 | \$ 300,000 | | 6,362,298 | 9,805,258 |
| 2007 | 3,092,960 | 50,000 | | | 6,886,414 | 10,029,374 |
| | <u>\$ 14,864,804</u> | <u>\$ 250,000</u> | <u>\$ 300,000</u> | <u>\$ 21,250</u> | <u>\$ 29,702,784</u> | <u>\$45,138,838</u> |

² Source of service revenue is made up primarily of Medicaid dollars which is a Federal program administered by the State. In addition, the Autism Society receives payment for services through the State Mental Health program.

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RESPONSE FROM AUTISM SOCIETY OF NORTH CAROLINA



August 15, 2008

Mr. Leslie W. Merritt, Jr. CPA, CFP
State Auditor
North Carolina Office of the State Auditor
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Merritt:

The Autism Society of North Carolina appreciates the opportunity to respond to the special review of its financial performance recently completed by your office.

505 Oberlin Road, Suite 230
Raleigh, NC 27605-1345

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F 919 743 0208
www.autismsociety-nc.org

Over the past 10 years, ASNC has experienced tremendous growth in its operations and budget responding to the dramatic increase in the number of North Carolinians diagnosed with autism and the corresponding need for autism services, advocacy and education. Our volunteer board previously has taken steps to address this rapid growth by expanding the skills among staff and board members and by formalizing the organization's policies and procedures.

We recognize, however, that additional improvements and more diligent monitoring of financial performance will be critical for sustained success in fulfilling our mission. We commend your staff on the professionalism and collaborative spirit they exhibited during the review process and welcome their expertise on ways to improve the financial policies and procedures of our organization.

As requested, the responses outline actions taken or planned in light of the review team's findings and recommendations.

1. Monitoring of Financial Operations

ASNC accepts the recommendations concerning the budget process and on-going monitoring of financial operations. We are pleased that your staff's review was consistent with ours and did not find any evidence that suggests wrong-doing or misappropriation of funds. As your review also notes, one of the major causes of the deficit was providing services that were not funded but were consistent with the mission of the organization. While the lives of individuals with autism and their families were positively affected by the provision of these services, we understand that these services added to the financial deficit of the organization.

Although a formalized budget process previously existed, ASNC now implements the process in a more effective manner including (1) personal meetings between the Chief Financial Officer and each of the organization's managers in which the budget figures are mutually determined and (2) periodic budget revisions, approved by the Board, should the actual figures deviate from those projected. It is anticipated that this process will result in a more accurate and reliable budget.

To improve controls over the financial operations, the ASNC has taken the following actions:

- Management now monitors cash flow on a daily basis and sends a weekly report to the Finance Committee of the Board. As a result, the organization's bank line-of-credit is now only used for short term operating purposes/working capital needs.
- The Finance Committee has implemented a new policy and procedure requiring dual authorization from the Chief Financial Officer and Chief Executive Officer to borrow under the organization's existing line-of-credit.
- The Finance Committee has implemented a new policy requiring dual authorization from the Chief Financial Officer and the Board Treasurer to liquidate any investments.

As a result of increased controls and more diligent monitoring of the financial operations by management and Board, we are proud to report that our fiscal year 2007 – 2008 numbers are substantially improved. Our internal financial statements indicate that ASNC will generate positive cash from operations for the past fiscal year.

ASNC will continue to incorporate in its current Board orientation and educational programs information on the roles and responsibilities of boards of directors of non-profit organizations. ASNC will also consult with the Office of the State Auditor Non-Governmental Division concerning training opportunities for Board Members.

2. Controls Over Credit Cards

We appreciate the careful review of the credit card activities of ASNC and, as with your findings related to our financial operations in general, we are pleased that your review was consistent with our own and did not find any wrong-doing or misappropriation of funds.

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Several months ago, ASNC implemented a new credit card policy and procedure that significantly increases the internal controls over the use of ASNC credit cards. Now the Chief Financial Officer authorizes and monitors the issuance of ASNC credit cards. The cardholder's immediate supervisor must approve all credit card purchases through the monthly Credit Card Reconciliation Form to which all receipts and statements are attached. Any purchase over \$200 requires a purchase request form signed by the cardholder's supervisor and Chief Financial Officer prior to purchase.

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ASNC plans to contact the Office of the State Auditor Non-Governmental Division to consider training related to recommended documentation requirements and internal control methods.

3. Director of Finance's Credit Card Use

The Director of Finance responsible for the identified questionable credit card charges is no longer with ASNC; and all employee cardholders, including the current Chief Financial Officer, have been made aware that such charges are inappropriate.

In addition, ASNC's Chief Operating Officer has distributed and requested each cardholder to review and sign the new credit card policy, which includes examples of inappropriate uses of ASNC credit cards. ASNC plans to consult with the Officer of State Auditor Non-Governmental Division regarding available training for identifying allowable and unallowable costs related to non-profit organizations.

If you have questions or desire further clarification, please do not hesitate to contact me.

Sincerely,

Dr. F. Whitney Jones
President

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ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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