



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued July 14, 2015

Hildebrand Family Self-Help Center, Inc.

For the period July 1, 2012 through June 30, 2014





Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

July 14, 2015

Ms. Shiela Moore, Executive Director
Hildebrand Family Self-Help Center, Inc.
614 Massachusetts Avenue, #3
Cambridge, MA 02139

Dear Ms. Moore:

I am pleased to provide this performance audit of Hildebrand Family Self-Help Center, Inc. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2012 through June 30, 2014. My audit staff discussed the contents of this report with management of the organization, whose comments are reflected in this report.

I would also like to express my appreciation to Hildebrand Family Self-Help Center, Inc. for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular watermark.

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

CFO	chief financial officer
CMR	Code of Massachusetts Regulations
DHCD	Department of Housing and Community Development
OSD	Operational Services Division
UFR	Uniform Financial Statement and Independent Auditor's Report

EXECUTIVE SUMMARY

Hildebrand Family Self-Help Center, Inc. is a not-for-profit human-service organization dedicated to providing short-term housing for homeless families and long-term solutions for homelessness. In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of Hildebrand for the period July 1, 2012 through June 30, 2014. We reviewed Hildebrand's activities to determine its compliance with applicable laws, regulations, policies, and procedures, as well as the terms and conditions of its state contract, in the areas reviewed.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 7	Hildebrand discovered \$17,459 of questionable and/or improper transactions, which it disclosed to police, but not to the Department of Housing and Community Development as required. It also did not identify these costs as non-reimbursable in the Uniform Financial Statements and Independent Auditor's Reports (UFRs) it submitted to the state's Operational Services Division (OSD).
Recommendations Page 8	<ol style="list-style-type: none">1. Hildebrand should improve its controls over the processing of expenses to reduce the likelihood that improper expenses will be incurred and will go undetected. All costs paid with state funds must be documented and must relate to activities for programs contained in Hildebrand's state contract.2. Hildebrand should disclose all non-reimbursable costs as such in its UFRs in accordance with OSD requirements.3. Hildebrand should reimburse the Commonwealth for this \$17,459 in non-reimbursable expenses that was paid for with state funds.
Finding 2 Page 10	Hildebrand paid \$209,855 to a member of its board of directors but could not substantiate that these costs fell within allowable amounts for this type of transaction. It also did not report these costs as non-reimbursable in its UFRs.
Recommendations Page 11	<ol style="list-style-type: none">1. Hildebrand should disclose all related-party transactions to OSD before executing them, as required by 808 Code of Massachusetts Regulations 1.04.2. Hildebrand should reimburse the Commonwealth for this \$209,855 in non-reimbursable expenses that was paid for with state funds.3. Hildebrand should ensure that it does not use state funds to pay costs that are considered non-reimbursable under OSD regulations. All costs paid with state funds must be documented.4. Hildebrand should disclose all non-reimbursable costs as such in its UFRs in accordance with OSD requirements.

Finding 3 Page 13	Hildebrand had inadequate documentation for \$31,251 of expenses and did not identify these unallowable expenses as such in its UFRs.
Recommendations Page 14	<ol style="list-style-type: none">1. Hildebrand should reimburse the Commonwealth for this \$31,251 in non-reimbursable expenses that was paid for with state funds.2. Hildebrand should ensure that it does not use state funds to pay costs that are considered non-reimbursable under OSD regulations. All costs paid with state funds must be documented and must specifically relate to activities for programs contained in Hildebrand's state contract.3. Hildebrand should disclose all non-reimbursable costs as such in its UFRs in accordance with OSD requirements.4. Hildebrand's board of directors should improve its oversight of operational activities such as consultant costs.
Finding 4 Page 15	Some of Hildebrand's board members did not attend the required number of meetings.
Recommendation Page 15	If board members do not attend the required percentage of meetings, the board should consider them to have resigned.

Post-Audit Action

In June 2014, Hildebrand hired a full-time chief financial officer and moved its accounting function in house. After our audit period, its board of directors replaced a member who did not meet attendance requirements. In addition, at the time we began our audit, Hildebrand was updating its policies and procedures to enhance controls over purchases.

OVERVIEW OF AUDITED ENTITY

According to its website, Hildebrand Family Self-Help Center, Inc., located in Cambridge, was established in 1984 “to provide refuge and help families become strong and self-sufficient.” In 1988, Hildebrand became a 501(c)(3) charitable organization, which enabled it to broaden its mission and provide case-management services to clients. Currently, Hildebrand offers emergency shelter to families at scattered sites and congregate housing¹ in the Greater Boston area. Clients are referred to Hildebrand by the state’s Department of Housing and Community Development (DHCD). Clients enrolled with Hildebrand are managed under the Housing First² model of services.

Hildebrand is primarily funded by a contract with DHCD. During fiscal years 2013 and 2014, Hildebrand’s revenue was as follows:

Revenue Source	Fiscal Year 2013	Fiscal Year 2014
DHCD Contract Revenue	4,547,868	4,717,081
Emergency Solutions Grant	9,000	9,000
Rental Income	106,893	127,488
Other*	8,336	16,623
Total	<u>\$4,672,097</u>	<u>\$4,870,192</u>

* Revenue related to areas such as fundraising, donations, and interest earned.

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1. Congregate housing is shared housing accompanied by support services intended to help clients become self-sufficient.
 2. The Housing First model is designed to prevent clients from returning to homelessness. It provides clients with transitional housing and caseworkers who develop service plans targeted at providing job skills and financial management skills; assistance in looking for affordable permanent housing; counseling; and, if necessary, childcare.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of Hildebrand Family Self-Help Center, Inc. for the period July 1, 2012 through June 30, 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. When we initiated our audit, Hildebrand disclosed instances of fraud occurring during our audit period. With regard to the circumstances that allowed fraud to occur, did Hildebrand comply with applicable Operational Services Division (OSD) regulations and state contract terms?	No; see Finding <u>1</u>
2. Were related-party transactions appropriate and disclosed in compliance with applicable OSD regulations and state contract terms?	No; see Finding <u>2</u>
3. Did compensation paid to officers and managers comply with applicable OSD policies?	Yes
4. Did payments related to leases comply with applicable OSD regulations and state contract terms?	Yes
5. Did payments for contracted services and consultants comply with OSD regulations and state contract terms?	No; see Finding <u>2</u>
6. Did Hildebrand's operating and administrative expenses, as reported in its Uniform Financial Statements and Independent Auditor's Reports (UFRs), ³ comply with 808 Code of Massachusetts Regulations (CMR) 1.00?	No; see Finding <u>3</u>

3. Each year, agencies such as Hildebrand that operate social programs and contract with various Commonwealth departments must prepare financial statements called Uniform Financial Statements and Independent Auditor's Reports and file them electronically with OSD.

Objective	Conclusion
7. Did Hildebrand’s board of directors fulfill its oversight duties in accordance with its bylaws and the Massachusetts Attorney General’s Guide for Board Members of Charitable Organizations?	No; see Finding 4

To achieve our objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls. To assess the reliability of the data, we performed a data-reliability assessment of Hildebrand’s principal accounting software. We determined that the data were sufficiently reliable for the purposes of our report.

In addition, we performed the following audit procedures:

- We reviewed all of the laws, regulations, policies, procedures, and contract terms related to our audit objectives.
- We interviewed Hildebrand management and other staff, as well as representatives from the firm that performs the organization’s annual independent audit. Through these interviews, we gained an understanding of the nature and scope of services that Hildebrand provides under its contract with the Department of Housing and Community Development, how various aspects of this contract are administered, and the scope of the assessment of Hildebrand’s internal controls that its independent auditors perform.
- To gain an understanding of Hildebrand’s accounting process, we interviewed employees of the accounting firm used by Hildebrand to record financial transactions during our audit period.
- Using a list of Hildebrand’s employees and the members of its board of directors for our audit period, we searched Hildebrand’s fiscal year 2013 and 2014 general ledgers to determine whether related-party transactions, if there were any, were appropriately disclosed in accordance with 808 CMR 1.04(4).
- We reviewed the related-party-transaction disclosures in Hildebrand’s fiscal year 2013 and 2014 UFRs and compared the information therein to Hildebrand’s records to determine whether these transactions were properly disclosed.
- We tested all identified related-party transactions to determine whether the amounts involved were reasonable in accordance with state regulations.
- We reviewed payments made to certain Hildebrand board members to determine whether the expenses were supported with proper documentation and were reimbursable in accordance with 808 CMR 1.00.
- We reviewed all board minutes and reports to the board during our audit period.
- We reviewed Hildebrand’s UFRs and audited financial statements prepared during our audit period.

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- We reconciled the amounts reported by Hildebrand in its fiscal year 2013 and 2014 UFRs to amounts contained in its general ledger and audited financial statements.
 - We identified general-ledger account information related to funds received under Hildebrand's state contract. We used this information to select our samples for testing.
 - We reviewed a judgmental sample of leases executed by 7 out of 31 landlords that leased property to Hildebrand during our audit period for appropriate approvals and to determine whether lease payments were reasonable in accordance with 808 CMR 1.05(1).
 - We reviewed a judgmental sample of 12 out of 21 manual checks⁴ prepared during our audit period to determine whether the associated payments were supported by proper documentation and were reimbursable in accordance with 808 CMR 1.00.
 - We reviewed all disbursements related to contracted goods and services made during our audit period to determine whether the associated payments were supported by proper documentation and reimbursable in accordance with 808 CMR 1.00.
 - We reviewed all interest payments made during our audit period to determine whether they were reimbursable in accordance with 808 CMR 1.05(3).
 - We reviewed a judgmental sample of 24 out of 206 vendors and individuals paid during our audit period that had not already been considered for testing in our other test areas.
 - We reviewed officers' and managers' compensation during our audit period to determine whether amounts paid were within the range allowed by 808 CMR 1.05.

Whenever sampling was used, we applied a non-statistical approach, and as a result, we were not able to project our results to the population.

4. During our audit period, when Hildebrand paid an expense, a member of its accounting staff would send an invoice, attached to a payment voucher (a document detailing the approval of payment along with how the expense should be classified in the general ledger), to its outside accounting firm, which would prepare a check to pay for the expense. Expenses paid by manual check circumvented this process; we tested these expenses separately to determine whether they were appropriate and properly documented.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Hildebrand did not properly safeguard state contract funds or disclose the misuse of \$17,459 in state funds.

Hildebrand officials told us that during fiscal year 2014, the organization identified various questionable and/or improper transactions. First, in January 2014, Hildebrand's interim finance director discovered that between July 2013 and November 2013, the organization's finance assistant had created and processed \$6,320 of fraudulent invoices, which, according to Hildebrand officials, were for the payment of her rent. Second, in April 2014, Hildebrand discovered \$9,739 of improper credit-card transactions by the finance assistant. These transactions, which occurred between October 2013 and April 2014, were made on a credit card intended to be used to buy gift cards for Hildebrand's clients to purchase emergency food and household items. It appeared that the assistant had bought these gift cards, but had not distributed them to clients. Finally, in 2014, Hildebrand identified a \$1,400 disbursement made in September 2013 for cleaning services. The checks were associated with invoices from cleaning companies, but were made out to individuals who were not associated with those companies, and Hildebrand could not verify that the services were actually provided.

Hildebrand reported all of these incidents to the police, but not to the Department of Housing and Community Development (DHCD), even though state funds were used to pay these expenses. Further, Hildebrand improperly disclosed them as reimbursable costs to its state contract in the 2014 Uniform Financial Statements and Independent Auditor's Reports (UFRs) it submitted to the state's Operational Services Division (OSD).

As a result of these issues, a total of \$17,459 was inappropriately reimbursed by the Commonwealth. In addition, because Hildebrand did not report these incidents to the appropriate state agencies, the Commonwealth was not given the information necessary to perform proper oversight.

Authoritative Guidance

The Commonwealth's Standard Contracts Form, in the subsection "Business Ethics and Fraud, Waste and Abuse Prevention" under "Contractor Certification and Legal References," states,

The Contractor certifies that performance under this Contract, in addition to meeting the terms of the Contract, will be made using ethical business standards and good stewardship of taxpayer and other public funding and resources to prevent fraud, waste and abuse.

In the subsection "Bankruptcy, Judgments, Potential Structural Changes, Pending Legal Matters and Conflicts" under "Contractor Certification and Legal References," the form states,

The Contractor certifies that at any time during the period of the Contract the Contractor is required to affirmatively disclose in writing to the [DHCD] Contract Manager the details of any judgment, criminal conviction, investigation or litigation pending against the Contractor or any of its officers, directors, employees, agents, or subcontractors.

In addition, OSD regulation 808 Code of Massachusetts Regulations (CMR) 1.05 defines the following as non-reimbursable costs:

- (12) *Non-Program Expenses. Expenses of the Contractor which are not directly related to the social service Program purposes of the Contractor. . . .*
- (26) *Undocumented Expenses. Costs which are not adequately documented. . . .*

Finally, Hildebrand is required by OSD guidelines to identify any non-reimbursable costs it incurs in the UFR it annually submits to OSD and identify the non-state funds that were used to pay them. According to OSD guidelines included in OSD's UFR Audit and Preparation Manual, if, during an audit, an auditor identifies any non-reimbursable costs that were not reported in an entity's UFRs, they are presumed to have been paid for with Commonwealth funds.

Reasons for Lack of Fraud Prevention and Reporting

During our audit period, Hildebrand did not have a full-time chief financial officer (CFO). The lack of supervision and review enabled a finance assistant during that time to circumvent internal controls and contributed to fraud-related filing requirements being overlooked.

Recommendations

1. Hildebrand should improve its controls over the processing of expenses to reduce the likelihood that improper expenses will be incurred and will go undetected. All costs paid with state funds must be documented and must relate to activities for programs contained in Hildebrand's state contract.
2. Hildebrand should disclose all non-reimbursable costs as such in its UFRs in accordance with OSD requirements.
3. Hildebrand should reimburse the Commonwealth for this \$17,459 in non-reimbursable expenses that was paid for with state funds.

Post-Audit Action

After our audit period, Hildebrand hired a full-time CFO. In addition, Hildebrand officials told us that the organization had already been in the process of updating its policies and procedures to enhance controls over purchases when our audit began.

Auditee's Response

Controls were in place prior to the audit and at the time the finance assistant processed fraudulent invoices, and they have been further tightened since the occurrence. The organization is pursuing the matter to the fullest extent of the law, and will be seeking restitution. The former employee was charged with larceny, and the case is in the process of being prosecuted in the Cambridge District Court.

The organization implemented new and revised policies relating specifically to purchases, invoice payments, and check processing in general. In addition to the hiring of the CFO, we have hired a full-time accounting assistant to monitor financial operations and internal controls. Internal controls have been created and/or enhanced to identify potential improper transactions. All invoices are reviewed (and documented by stamp, initials or signature) by at least three people including the CEO and CFO prior to payment. All bank accounts, cash, and gift cards are reconciled and reviewed at least monthly by the CEO and CFO. All accounts are analyzed monthly and compared to budget. There are NO invoices that are paid without documentation and most have additional backup including purchase orders, packing slips, receipts, etc.

We believed we took appropriate steps at the time. Hildebrand reported the incident to the police and filed criminal complaints against the former employee in question. . . . We disclosed this incident to our organization auditor, Board of Directors, the state auditors on the first day of the audit.

It was and remains our intent to comply with Contractor Certification and Legal References requirements of the Commonwealth's Standard Contracts.

We will work with OSD in resolving any non-reimbursable costs.

Auditor's Reply

While Hildebrand notified legal authorities and its board of directors of the fraud, the organization is also required under its contract with the state to notify DHCD. Further, non-reimbursable costs, such as those discussed here, are required to be disclosed to OSD in an organization's UFR. Because Hildebrand did not disclose them, DHCD and OSD were not given all the information necessary to perform proper oversight.

Based on its response, Hildebrand has taken measures to improve its internal controls in this area.

2. Hildebrand paid \$209,855 to a member of its board that it could not substantiate as allowable costs.

A member of Hildebrand's board of directors was paid \$99,350 and \$110,505 in fiscal years 2013 and 2014, respectively, as a part-time consultant in the role of interim finance director. Though this arrangement was appropriately disclosed in Hildebrand's financial statements, we found no evidence that it met certain regulatory requirements. Therefore, the \$209,855 paid to the board member during our audit period is not a reimbursable cost under OSD regulations.

The costs of a related-party transaction must not exceed (1) market value or (2) the related party's costs for the goods or services it provides, whichever is lower. Alternatively, the transaction could have been considered allowable if it met other requirements, including a requirement that the related party's annual sales (of an item or service) to an entity such as Hildebrand not exceed 10% of the related party's total annual sales. To meet this requirement, the board member's annual sales would have had to exceed \$990,000 in fiscal year 2013 and \$1.1 million in fiscal year 2014. We found no evidence that these conditions had been met; therefore, we cannot confirm that Hildebrand complied with this requirement. In addition, Hildebrand disclosed all of this related party's costs as reimbursable to its state contract in the 2013 and 2014 UFRs it submitted to OSD.

Authoritative Guidance

Related-party transactions are of special concern for auditors, funders, and oversight agencies because the use of related parties may facilitate the misappropriation of assets; fraud; or violations of law, regulation, policy, or contract requirements, and it may be used to generate undue benefit to individuals or to other entities. Because of these concerns, federal and state laws, regulations, and accounting standards have been established to control the use and reporting of related-party transactions. Depending on the circumstances, multiple standards, definitions, and regulations apply; however, the primary standard that applies to these types of situations is the Financial Accounting Standards Board's Accounting Standards Codification 850-10-05-3, which states that related parties include "management of the entity" and "other parties that can significantly influence [its] management or operating policies."

Further, in addition to the previously discussed exclusion of undocumented expenses, 808 CMR 1.05 states that some related-party transactions also represent non-reimbursable costs:

(8) Related Party Transaction Costs. Costs which are associated with a Related Party Transaction are reimbursable only to the extent that the costs do not exceed the lower of either the market value price or the Related Party's actual costs. Notwithstanding the above provision, Related Party transaction costs are reimbursable up to market price when the following conditions are satisfied:

- a) the transaction is for a good or service which the Related Party sells to the general public;*
- b) the Related Party's transactions with the Contractor in the reporting year comprise less than 10% of the Related Party's annual sales of that good or service to the general public . . . and*
- c) the Contractor has approved the transaction by vote of independent directors, or a committee of independent directors, following full disclosure of the Related Party's interests.*

Finally, as previously mentioned, OSD guidelines state that if non-reimbursable costs are not disclosed as such in an entity's UFR, they are presumed to have been paid for by the Commonwealth.

Reasons for Lack of Approval and Disclosure

Hildebrand officials indicated that they were not aware of these requirements for related-party transactions.

Recommendations

1. Hildebrand should disclose all related-party transactions to OSD before executing them, as required by 808 CMR 1.04.
2. Hildebrand should reimburse the Commonwealth for this \$209,855 in non-reimbursable expenses that was paid for with state funds.
3. Hildebrand should ensure that it does not use state funds to pay costs that are considered non-reimbursable under OSD regulations. All costs paid with state funds must be documented.
4. Hildebrand should disclose all non-reimbursable costs as such in its UFRs in accordance with OSD requirements.

Post-Audit Action

During our audit period, a member of Hildebrand's board of directors acted as a part-time CFO. Before our audit began, Hildebrand was looking for a full-time CFO. That role was filled in June 2014. While Hildebrand was without a CFO, it engaged an accounting firm to provide bookkeeping services as well as an independent accounting firm to perform its annual audit, as required by its state contract. At the

same time it engaged the new CFO, Hildebrand completed plans to move its accounting function in house.

Auditee's Response

The organization was in a unique position of leadership transition during this audit period. We were not fully aware of 808 CMR 1.05(8)(b). However, as the regulation relates to market value, the organization does not believe that it paid its interim Director of Finance beyond market value, but does now understand that it should not have exceeded 10% of the party's annual sales of goods and services. In retrospect and in light of the above regulation the Board should have asked the related party to step away from the Board during the time such services were provided to avoid the potential issue involving the related party's annual sales. The Board was assured that the value of the services rendered was not only critical but reasonable and necessary and we affirm that position today.

As stated in the audit report, Hildebrand did disclose these transactions in our audited financial statements for both 2013 and 2014. In addition, our Board of Directors was well aware of the related party transaction and approved the relationship. During this audit period the organization had no CFO, and the executive director of 25 years had recently announced her impending retirement. The Board and executive director decided that the organization needed someone with the institutional knowledge and financial background to provide: control over finances; continuity for staff and state contract manager; and who could communicate effectively with the Board on financial matters during this period of transition. It is clearly documented that the Interim Director of Finance performed services in this capacity during the two-year audit period. Therefore, it is unreasonable to conclude that the entire amount of the compensation paid to this individual during this time is non-reimbursable and subject to recoupment.

The current CFO is being paid at a similar market value as that of the Board member who served as interim CFO. The salary of the current CFO is based upon industry standards, and confirmed by the search firm used to recruit him. The search firm specializes in nonprofit finance search and interim CFOs placements on the east coast.

The organization values transparency and has put in place the tools necessary for such oversight appropriate for a governing body.

Auditor's Reply

We do not dispute that the interim finance director performed necessary services for the organization during the audit period; the issue is that Hildebrand could not substantiate that the amount of her compensation met OSD requirements for reimbursable costs under its state contract. Consequently, Hildebrand owes this money to the Commonwealth. It is Hildebrand's responsibility to be aware of, and ensure compliance with, all regulations that apply to its state contract, including those that apply to related-party transactions.

3. Hildebrand charged \$31,251 of inadequately documented expenses to its state contract.

Hildebrand charged \$9,801 of expenses to its state contract that were non-reimbursable according to OSD regulations because they were inadequately documented. Specifically, Hildebrand was unable to provide documentation for \$2,636 paid to five vendors in fiscal year 2013 and \$7,165 paid to three vendors in fiscal year 2014.

In addition, under the oversight of the previous executive director, in fiscal year 2013, Hildebrand paid a consulting company \$21,450 for "fundraising and development." The consulting company's invoices did not sufficiently document the services provided, and an unknown amount of these services was attributed to fundraising, which is a non-reimbursable cost under 808 CMR 1.05(10). In addition, the principal of the consulting company and the former executive director served together on a separate entity's board of directors when these transactions occurred, and there was no evidence that Hildebrand had selected the consulting company using a competitive bidding process as required by 808 CMR 1.03(8).

Hildebrand improperly identified the \$31,251 in consulting and other costs as reimbursable to its state contract in the 2013 and 2014 UFRs it submitted to OSD.

Authoritative Guidance

As previously mentioned, 808 CMR 1.05 classifies insufficiently documented costs as non-reimbursable, and OSD guidelines state that non-reimbursable costs that are not identified as such in an entity's UFR are presumed to have been funded by the Commonwealth.

In addition, 808 CMR 1.05(10) defines the following as a non-reimbursable cost:

Fundraising Expense. The cost of activities which have as their primary purpose the raising of capital or obtaining contributions, including the costs associated with financial campaigns, endowment drives, and solicitation of gifts and bequests. However, if a Program which receives Commonwealth funds does not, or cannot be reasonably expected to, receive federal funds, the fundraising expenses specifically for raising capital or obtaining contributions for that Program may be off-set against the revenue generated by the fundraising activity except no loss will be reimbursable.

Finally, OSD regulation 808 CMR 1.03(8) states that contractor services shall be procured "in a manner to provide, to the maximum extent practical, open and free competition."

Reasons for Lack of Documentation

Weak board oversight and the absence of a full-time financial staff during most of our audit period appear to be the major contributing factors to the exceptions noted in this and other findings.

Recommendations

1. Hildebrand should reimburse the Commonwealth for this \$31,251 in non-reimbursable expenses that was paid for with state funds.
2. Hildebrand should ensure that it does not use state funds to pay costs that are considered non-reimbursable under OSD regulations. All costs paid with state funds must be documented and must specifically relate to activities for programs contained in Hildebrand's state contract.
3. Hildebrand should disclose all non-reimbursable costs as such in its UFRs in accordance with OSD requirements.
4. Hildebrand's board of directors should improve its oversight of operational activities such as consultant costs.

Auditee's Response

The amount of \$9,801 is approximately 1/10th of one percent of the expenses in question during the two years. The organization cooperated fully in providing the auditors with invoices for review, but was not made aware until after the exit interview that these invoices were still considered as unsubstantiated.

The remaining amount of \$21,450 was paid to a contractor hired by the former executive director to support its fundraising and development activities according to the contract invoices provided. The Board was not aware the consultant and the previous ED served together on a nonprofit Board. We have taken steps to make sure that procedures are in place to disclose such relationships in the future. The Board established governing procedures in 2010, and revised them in 2014, as the new CEO began making changes to management practices and organization policies. In 2014, the organization revised its conflict of interest policy requiring disclosure of any such potential for Board members, directors and CEO. The governance policies of the Board, and management related policies were provided to the auditors.

We will cooperate with OSD as it determines what portion, if any, of the \$31,251 must be returned.

Auditor's Reply

We requested documentation for our sample items throughout our audit, and although we did receive documentation for most items, \$9,801 was still undocumented at the conclusion of our audit. Though the undocumented expenses of \$9,801 were a small percentage of total expenses during our audit

period, they were still non-reimbursable because they were not documented. We agree that Hildebrand should work with OSD to resolve the issues discussed in this finding.

Regarding the board policy manual provided to us at the start of our audit, we noted that certain policies in the document were inconsistent with some of Hildebrand's current practices and board bylaws. We discussed this with Hildebrand's executive director, who stated that the governing policies were in the process of being rewritten. Accordingly, we did not rely solely on the content of the then-existing governing policies in the course of our audit; we placed more reliance on the board bylaws.

4. Some of Hildebrand's board members did not meet the attendance requirements for board meetings.

In fiscal year 2013, one of the eight members of Hildebrand's board of directors attended only 39% of board meetings, and in fiscal year 2014, three of the eight members attended fewer than 75% of board meetings. Therefore, the board may have been making decisions about the organization without the diverse and informed input of all board members.

Authoritative Guidance

According to Section 4.9 of Hildebrand's bylaws,

All Board members are required to attend all board meetings. A member who fails to attend 75% of regular board meetings in a fiscal year, or who fails to attend three consecutive regular board meetings or who fails to attend four meetings in an consecutive twelve-month period will be deemed to have resigned.

Reasons for Lack of Attendance

Hildebrand's board of directors did not hold its members accountable for attending board meetings by deeming them to have resigned after they missed a certain number of meetings, in accordance with its bylaws.

Recommendation

If board members do not attend the required percentage of meetings, the board should consider them to have resigned.

Post-Audit Action

After our audit period, Hildebrand's board of directors replaced a member who did not meet the attendance requirements of its bylaws in fiscal years 2013 and 2014.

Auditee's Response

The Board of Hildebrand is highly skilled, professional and actively engaged. The Board will hold itself more accountable to the literal requirements of its bylaws.