



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

Making government work better

Official Audit Report – Issued July 8, 2014

Action Inc.

For the period October 1, 2011 through September 30, 2013





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Making government work better

July 8, 2014

Timothy Riley, Executive Director
Action Inc.
180 Main Street
Gloucester, MA 01930

Dear Mr. Riley:

I am pleased to provide this performance audit of Action Inc. This report details the audit objectives, scope, methodology, and results for the audit period, October 1, 2011 through September 30, 2013. My audit staff discussed the contents of this report with management of the agency.

I would also like to express my appreciation to Action Inc. for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read 'SMBump'.

Suzanne M. Bump
Auditor of the Commonwealth

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EXECUTIVE SUMMARY

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 Action Inc. (Action) for the period October 1, 2011 through September 30, 2013. This report considers whether, during our audit period, Action had instituted adequate internal controls, reporting, and compliance measures to ensure that (1) administrative and program expenses, including management fees, were reasonable and related to program services; (2) contract management controls and procedures functioned as designed; (3) its monitoring of programs and subcontractors was effective; (4) related-party transactions were properly documented; and (5) board governance was effective.

Summary of Findings and Conclusions

Action has established internal control policies and procedures that provide reasonable assurance that organizational objectives and compliance obligations are met and that associated risks such as those for fraud, waste, and abuse are minimized. For reviewed areas related to our audit objectives, we did not identify any significant deficiencies warranting attention by those responsible for governance.

OVERVIEW OF AUDITED AGENCY

Background

Action Inc. (Action), located in Gloucester, Massachusetts, was established in 1965 under the Economic Opportunity Act of 1964. Action is a private, charitable, nonprofit human-service organization, tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Action is a federally designated Community Action Agency¹ serving primarily the city of Gloucester and the towns of Essex, Ipswich, Manchester, and Rockport. The agency also oversees energy conservation projects throughout the state. According to its website, Action’s mission is to “improve the quality of life for disadvantaged residents of Cape Ann and beyond by minimizing the effects of, poverty, promoting economic security, and advocating for social change.”

Action is governed by a board of directors made up of one-third public-sector representatives, one-third private-sector representatives, and one-third community-sector representatives. During our audit period, Action operated a variety of programs offering services related to housing and homelessness, energy, income maintenance, education and training, and home care. A complete description of the programs operated by Action during our audit period, and a list of the members of the board of directors, appear in the appendices to this report.

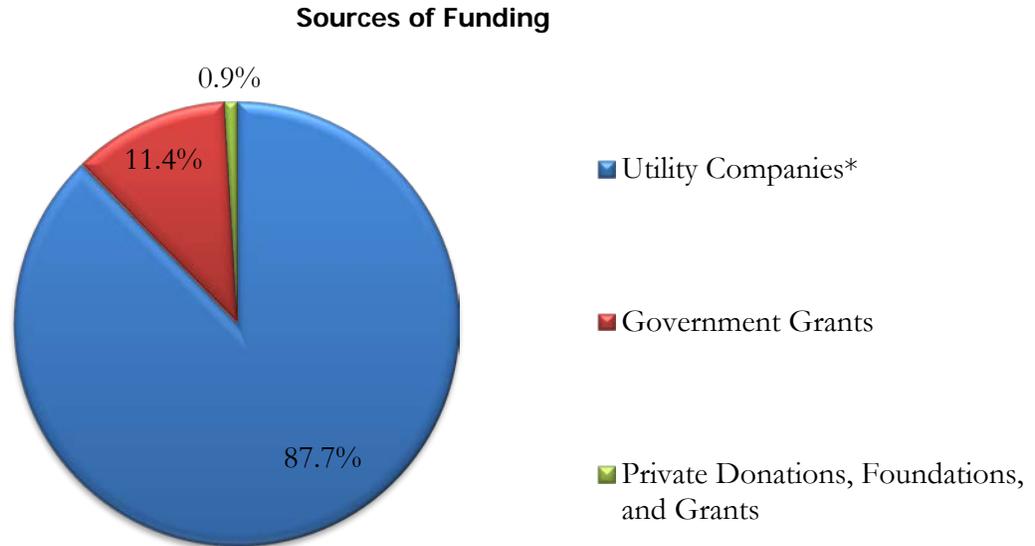
During our audit period, October 1, 2011 through September 30, 2013, the agency employed approximately 76 full-time employees and 98 part-time employees. As a designated Community Action Agency, Action receives funding that is provided through the Community Services Block Grant.² Action also receives support through a funding portfolio that includes private foundation grants; state, federal, and local government grants; and individual donations. The breakdown of Action’s funding sources and program expenses for 2013 is presented in the charts below.

¹ Community Action Agencies are local nonprofit organizations established under the 1964 Economic Opportunity Act to provide assistance to low-income people in their communities.

² The Community Services Block Grant is a federal grant distributed by state governments to Community Action Agencies and other programs.

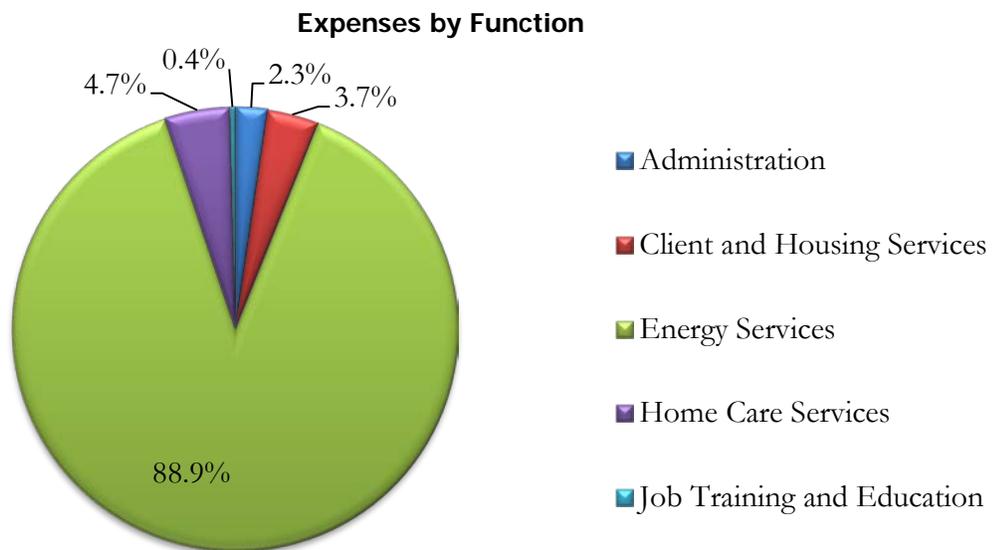
2013 Financial Information

Total revenue: \$49,056,875



* Utility company funding for statewide energy conservation programs is federally mandated. In this case, oversight is assigned to the Department of Housing and Community Development and administered by Action’s Energy Services division.

Total organizational expenses: \$47,515,455



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 Action Inc. (Action) for the period October 1, 2011 through September 30, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

Our audit objectives were to examine Action's internal controls, reporting, and compliance measures to ensure that (1) administrative and program expenses, including management fees, were reasonable and related to program services; (2) contract management controls and procedures functioned as designed; (3) its monitoring of programs and subcontractors was effective; (4) related-party transactions were properly documented; and (5) board governance was effective.

To accomplish our audit objectives, we performed the following activities:

- We gained an understanding of Action and its governance, management, and operations by reviewing organization charts and other materials, reports, and public filings, as well as interviewing members of Action's staff and related party.
- We reviewed and analyzed prior compliance reports and read reports of engagements conducted by oversight entities and peer reviewers, including the Department of Housing and Community Development and the Northeast Institute for Quality Community Action, funded through federal and/or state agencies.
- We examined contracts and grant awards and identified and reviewed applicable laws, rules, regulations, and grant covenants or requirements for compliance in Action's administration of those agreements. Our review of contract management protocols and procedures disclosed no significant instances of noncompliance.
- We identified and reviewed applicable laws, rules, and regulations pertinent to our objectives.

- We reviewed and analyzed Action’s annual Uniform Financial Statements and Independent Auditor’s Reports and other public filings for evidence of related-party³ transactions.
- We reviewed and analyzed Action’s policies and procedures and other control-related information and assessed risks related to fraud, noncompliance, or other deficiencies pertinent to our audit objectives.
- We reviewed controls over electronically processed information supporting Action’s business objectives. Specifically, we examined controls over compliance for the procurement of Action’s information-technology vendor contract and access to mission-critical application systems. We also assessed the adequacy and effectiveness of the agency’s controls over the protection and confidentiality of personally identifiable information.
- We determined the reliability of data from Action’s electronic accounting records by selecting source documents and tracing them through Action’s electronic accounting system. We determined that the data from the system were sufficiently reliable for purposes of our audit.
- We selected certain transactions, primarily by using judgmental sampling, for further examination to assess selected internal controls that we deemed pertinent to our audit objectives and to determine whether transactions were adequately supported, reasonable, allowable, and allocable to publicly funded programs. The purpose of using judgmental sampling was to focus our review on relative materiality and risk of various costs.
- We examined and evaluated the internal controls in place over the financial reporting statements related to administrative and program expenses. The results of our administrative and program expenses review disclosed no significant instances of noncompliance required to be reported under GAGAS.

Regarding internal controls, reporting, and compliance measures pertaining to agency monitoring of programs and subcontractors, the federal Office of Management and Budget (OMB) Circular No. A-102 Common Rule requires that nonfederal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. In addition, OMB Circular A-133 requires auditors to

obtain an understanding of the non-Federal entity’s internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned.

³ The Financial Accounting Standards Board’s Accounting Standards Codification 850-10-05-3 states that an entity is a related party “if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.”

The results of our monitoring review disclosed no significant instances of noncompliance required to be reported under GAGAS.

Regarding internal controls, reporting, and compliance measures pertaining to related-party transactions, best practices suggest that such transactions be avoided or discouraged and that, in the event of such a transaction, controls be in place to prevent, minimize, and detect fraud risk. Such controls could include, for instance, requiring that a written conflict-of-interest and code-of-ethics policy be in place and updated annually; requiring all related-party transactions to be disclosed and approved by the board; requiring competitive bidding for major purchases; and discouraging board members and employees from hiring relatives or being involved in business transactions.

During our audit period, Action had a single instance of a related-party transaction. Action established an organization called Home Together Community Housing Corporation (HTCHC), which is a nonprofit organization, tax-exempt under Section 501(c)(3) of the Internal Revenue Code, and is not a private foundation. It was established for the purpose of holding title for the housing project located at Marsh Street in Gloucester. The board members of HTCHC are also the board members of Action; therefore Action controls the organization. The establishment of HTCHC was required to comply with requirements of a grant awarded by the U.S. Department of Housing and Urban Development. Our review of related-party transactions showed that the four examples of control activities discussed above were in place and in effect and showed no significant instances of noncompliance required to be reported under GAGAS.

Regarding internal controls, reporting, and compliance measures pertaining to the effectiveness of board governance, we reviewed and analyzed the roles and responsibilities of Action's board of directors, as well as the board's mission and business objectives. We also examined board meeting minutes and other documentation pertaining to our objective. We reviewed and analyzed the board's compliance with legal mandates and rules and regulations governing boards of directors of nonprofit human-service organizations. The results of our review of board governance effectiveness disclosed no significant instances of noncompliance required to be reported under GAGAS.

We assessed the operating effectiveness of relevant controls and did not identify significant control deficiencies or other deficiencies pertaining to our audit objectives that warranted attention by those responsible for governance.

At the conclusion of our audit work, we provided a draft copy of this audit report to Action management, who chose not to provide any written response to the report.

APPENDIX A

Action Inc. Program Descriptions⁴

Client Services

Part of ACTION'S Client and Housing Services division, Client Services connects people with the services and resources they need to take steps toward improving their lives. We offer case management to help identify and address each client's needs and goals, access to public benefits, enrollment in MassHealth and the Supplemental Nutrition Assistance Program, help applying for disability benefits, housing assistance services such as help with eviction notices and subsidized housing applications, and referrals to other programs and services.

COMPASS Youth Program

The COMPASS Youth Program is an alternative high school located at ACTION INC. COMPASS helps at-risk youth (ages 16–21) identify and address barriers to success at school, at work, and in life. We offer a Gloucester High School Satellite Day Program, a Night Diploma Program, and a General Equivalency Diploma Preparation Course, along with academic and career counseling, internship opportunities, life skills, and support services. COMPASS helps students recognize their individual strengths and goals and work to become successful adults.

Energy Services

ACTION'S Energy Services division works to bring affordable energy to the Greater Cape Ann area and far beyond, through conservation programs, financial assistance, and state- and nation-wide advocacy for energy efficiency and affordability. Energy Services offers home weatherization, fuel assistance, advice and products to reduce electricity use, heating system services, and phone and utility discounts to eligible economically disadvantaged households. The division also oversees major energy conservation initiatives across the state of Massachusetts.

HomeCare

ACTION HomeCare helps seniors and disabled adults live within the comfort of their own homes, through services ranging from personal care and errand-running to Home Health Aide services and hospice care. ACTION HomeCare's staff of more than 90 compassionate care providers is continuously trained to offer new services as the needs of clients evolve. We aim to provide a continuum of care for each individual we serve.

Housing Services

Part of the Client and Housing Services division, Housing Services helps struggling individuals and families find stable, affordable housing situations. ACTION has played a role in local homelessness prevention by owning and operating an emergency shelter for men and women; affordable, permanent housing units for individuals; and now brand new townhouse condos for families. We also offer help accessing subsidized housing and supportive services including case management and access to other ACTION programs.

⁴ Text in this appendix is quoted from a "Program Descriptions" document provided by Action Inc.

Job Training and Education

ACTION'S Job Training and Education division helps people improve their job opportunities through education, training, and resources. We offer career coaching including help with resumes and interview skills, training programs in the healthcare industry, adult education classes to help with basic reading/writing and math skills, help preparing for the General Equivalency Diploma exam, and referrals and supportive services that help unemployed and underemployed individuals access the resources they need to join the workforce.

Other Programs

ACTION also operates the Project Uplift holiday toy and clothing drive each holiday season, the Bailee's Backpacks back-to-school drive in the summer, and the year-round Better Off Baby Showers diaper and baby supply donation program.

APPENDIX B**Action Inc. Board of Directors*****Officers***

- Chair: Linda Giamanco, Public Sector
- Vice Chair: Tone Kenney, Community Sector
- Second Vice Chair: Roger Lesch, Public Sector
- Secretary: Linda Murphy, Community Sector
- Treasurer: Dennis Acker, Private Sector

Public-Sector Representatives

- Charlotte Dodge
- Courtney Lane
- Marcy Pregent
- Richard Rafuse
- Gretchen Wood

Private-Sector Representatives

- Gavin Keenan
- Shelly Luckenbill-Sevinor
- John Prybot
- Rebecca Sumner
- Karin Wade

Community-Sector Representatives

- Marilyn Grant
- Marcia Hahn
- Kyrstin Lavelle
- Loretta Peres
- Kathy Stewart