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DIVISION OF MUNICIPAL AUDIT**

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Division of Municipal Audit

November 29, 2001

Board of Directors
Council for Alcohol and Drug Abuse Services, Inc.
207 Spears Avenue
Chattanooga, TN 37405

Ladies and Gentlemen:

We have completed our special purpose examination of the Council for Alcohol and Drug Abuse Services, Inc., (CADAS). Our examination focused on the period July 1, 2000, through August 31, 2001. However, when the examination warranted, this scope was expanded. The examination focused primarily on the area of disbursements.

Our examination revealed the following internal control and compliance issues:

1. Auditors noted that a CADAS employee who had authority to sign agency checks was at the same time the secretary/treasurer of a contract vendor doing business with CADAS. That individual is currently on leave from CADAS. Auditors also noted another CADAS employee who also holds a position with the contract vendor. The executive director stated that he had not been notified by the two employees of their potential conflict of interest.

Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee, Section 13-8, states:

Related-party transactions between your NPO and members of its governing board, officers, or employees must be disclosed in the notes of GAAP financial statements if both parties receive economic benefits from the association.

In addition, the current CADAS employee handbook states:

All employees must submit to the Chief Executive Officer or Human Resource Director a list of organizations to which they belong that deal with the problems of alcohol or drug abuse. The purpose of this policy is to ensure that no conflict of interest exists or is perceived to exist by the public or other funding sources. Twelve step groups and professional organizations are excluded from this requirement. All full time employees must disclose any outside employment to their supervisor or the Human Resource Director. Generally, a second job is permitted if it is disclosed, does not create a conflict of interest and does not interfere with an employee's job performance.

2. The former chairwoman and chief executive officer of CADAS signed a five-year lease on July 9, 2001, obligating the organization to monthly installments of \$3,120 for a total lease payment of \$187,200. Auditors found no evidence that the former chairwoman and chief executive officer had obtained prior written approval of the board of directors as required in the organization's bylaws.

The CADAS "Bylaws of the Board of Directors," Article V, Section 7, state:

No director shall obligate the organization beyond the limits of items in the approved budget without specific authority in writing from the Board, such authority to be put in writing by the Recording Secretary after proper votes.

3. We noted that contracts for certain professional services did not appear to state the terms in a manner that could be clearly understood by management and the service provider. In addition, certain contract terms did not accurately reflect actual practice. For example, the contract for the provision of certain professional services stated that the provider would pay the cost of all necessary expenses. However, the provider was being reimbursed for those expenses. We recommend that contracts for professional services be reviewed and clarified as necessary.

Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee, Section 5-1, states:

The organization must maintain all of the records described in this section that are considered by the organization to be relevant and

material to the proper administration of all its financial activities. Any deviations or modifications must be justified.

Written policies and procedures should express management's position on how certain operational matters should be handled. Such policies and procedures may need to be changed from time to time to adapt to changing needs.

4. Certain employees, including the executive director, were eligible for bonuses based on the previous year's performance. The executive director received a portion of his bonus for the June 30, 2001, year as an advance. However, the agency had no policy allowing bonuses or any other personnel payments to be paid out as advances.

Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee, Section 5-1, states:

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5. Although a board meeting apparently took place, agency personnel were unable to produce the minutes of the June 2001 meeting of the CADAS Board of Directors.

The CADAS "Bylaws of the Board of Directors," Article V, Section 8, states:

The powers and duties of the Board of Directors shall be to:

(n) Maintain minutes of the regular and special meetings of the Board. The minutes of such meetings shall reflect attendance, active participation of all officers, the report of the Executive Director, PI committee activities, any actions taken, and the review and follow-up of any previous discussions and actions.

6. The current policy of CADAS is to reimburse employees for agency-related travel at the state rate for mileage. The policy does not address reimbursement for meals, hotels, travel-related expenses, and business-related expenses. Auditors noted that some employees were reimbursed for travel in amounts that exceeded both state and federal travel policies. We also noted that certain expenditures for business-related expenses lacked proper supporting documentation and proper verification and approval of proper

business purpose. We noted that CADAS is funded by a variety of state and federal grants.

Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee, Section 5-1, states:

The organization must maintain all of the records described in this section that are considered by the organization to be relevant and material to the proper administration of all its financial activities. Any deviations or modifications must be justified.

Records required include written policies such as travel policies.

Section 5-1 of the manual further states:

. . . most grants from state agencies require compliance with the state's "Comprehensive Travel Regulations." If your organization relies heavily on grant funding, consider patterning policies and procedures after those required by the grantors.

7. Auditors noted that certain significant and nonemergency disbursements, such as promotional events, were paid in cash. In addition, auditors noted internal control issues related to petty cash disbursements at the Scholze Center. Those petty cash funds were occasionally used for routine purchases and for an amount above that which would be considered incidental.

Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee, Section 5-4, states:

Upon proper certification of invoices and bills, make disbursements in accordance with your standard procedures for the issuance of checks and vouchers.

Section 13-7 of the manual further states that petty cash should only be used for small, incidental disbursements. That section also describes procedures for the establishment and maintenance of a proper petty cash fund.

8. The executive director was provided an agency vehicle as part of his compensation package in accordance with his employment contract with CADAS. The employment contract did not prohibit personal use of the agency vehicle. However, the value of the

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vehicle's availability was not properly considered a fringe benefit and included in the employee's income as required by the *Code of Federal Regulations*, Title 26, S 1.61-21.

Based on comments from management, they are in the process of correcting the identified weaknesses. If you have any questions concerning this matter, please contact me.

Sincerely,

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

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