

ALTERNATIVES LIVING, INC.



INVESTIGATIVE AUDIT
MAY 20, 2015

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 20, 2015

**MS. MELANIE DUPLECHAIN,
CHIEF EXECUTIVE OFFICER,
AND BOARD OF DIRECTORS
ALTERNATIVES LIVING, INC.**
New Orleans, Louisiana

We have audited certain transactions of Alternatives Living, Inc. Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the validity of allegations we received.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*.

The accompanying report presents our findings and recommendations as well as management's response. This is a public report. Copies of this report have been delivered to the Orleans Parish District Attorney, the United States Attorney for the Eastern District of Louisiana, and others as required by law.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa

ALTERNATIVES LIVING 2015

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EXECUTIVE SUMMARY

Senior Management Officers Used Public Funds for Personal Purposes

From July 7, 2010 to December 20, 2013, Alternatives Living, Inc. (Alternatives Living) senior management officers Melanie Duplechain, Ricky Roberson, and Ada Craige-Roberson incurred expenses totaling \$133,164 that appear to be personal in nature. These expenses included purchases of sports and entertainment event tickets, the lease of a luxury vehicle, the subsequent purchase of a different luxury vehicle, personal travel, and college tuition payments. By using public funds for their personal benefit, Ms. Duplechain, Mr. Roberson, and Ms. Craige-Roberson may have violated state and federal law.

Expenses Lacked Documentation to Support Business Purposes

From March 10, 2010 to December 27, 2013, Alternatives Living incurred expenses totaling \$247,925 for which there was little or no documentation to support the business purpose of the expenses. These expenses included (1) checks payable to “Cash” totaling \$150,120; (2) \$31,136 in fuel station purchases; (3) \$31,112 in meal purchases at local restaurants; (4) \$29,515 of fundraising expenses; and (5) \$6,042 for “team building” expenses. Because Alternatives Living did not maintain documentation to support these expenses, we could not determine the business purpose, necessity, or reasonableness of these expenses or if the expenses benefitted individuals rather than Alternatives Living’s corporate mission. The failure to document the business purpose of these expenses may violate federal regulations governing allowable costs for federal grant funds.

Alternatives Living Improperly Billed DHH for Administrative Labor Costs

From October 21, 2010 to September 28, 2011, Alternatives Living improperly billed the DHH Permanent Supportive Housing (PSH) program \$2,024 for administrative labor costs that it simultaneously billed to non-PSH programs. In addition, Alternatives Living billed the PSH program for an administrative assistant whose work appears to have included non-PSH responsibilities. By billing DHH for these labor costs, Alternatives Living may have violated its contract with DHH and may be required to reimburse DHH for amounts improperly billed.

BACKGROUND AND METHODOLOGY

Alternatives Living, Inc. (Alternatives Living) is a Louisiana non-profit corporation domiciled in New Orleans, Louisiana, which registered with the Louisiana Secretary of State on December 29, 1993. According to its articles of incorporation, Alternatives Living was “organized exclusively for charitable, educational, and scientific purposes, including providing housing (temporary, transitional, and permanent) for the homeless, displaced, disabled, families, single females/males, women with children, youths, adolescents, elderly, individuals with mental illnesses, and veterans.”

Alternatives Living is funded primarily through contracts with the Louisiana Department of Health and Hospitals (DHH) to manage federally-funded grant programs designed to provide training, supervision, and housing support services to clients with severe and complex disabilities.

In accordance with Louisiana Revised Statute (La. R.S.) 24:513, Alternatives Living is a quasi-public agency.¹ Louisiana law² states that when public assistance received and/or expended by a quasi-public agency is commingled with other funds of the quasi-public agency, such assistance and other funds of the quasi-public agency shall be audited. During our audit, we found that Alternatives Living did not separately account for the funds it received and, thus, did not distinguish between public and private. Because Alternatives Living commingled public funds with other sources of income, we audited all of the commingled funds.

Pursuant to the agreements entered into between DHH and Alternatives Living, the corporation was a subrecipient of Community Development Block Grant (CDBG) funds from the United States Department of Housing and Urban Development that were awarded to DHH for the administration of the Permanent Supportive Housing (PSH) program. These funds constituted approximately 75 percent of Alternatives Living’s total funding during the audit period. As a subrecipient of CDBG funds, Alternatives Living certified that 100 percent of activities paid for with CDBG grant funds would benefit low-income individuals and families. Subrecipients of PSH funds are required to comply with OMB Circular A-122, *Cost Principles for Non-Profit Organizations*.

Alternatives Living’s financial statement audit for the fiscal year ended June 30, 2012, indicated a lack of internal control over financial reporting. This lack of control resulted in several audit findings, including lack of segregation of duties for accounting functions, failure to pay state and federal payroll taxes, lack of documentation to support checks written to “Cash,” lack of documentation to support credit card purchases, and personal expenses incurred by employees. After a review of the external auditor’s report, the Louisiana Legislative Auditor began this audit of Alternatives Living. The period covered by this audit is January 1, 2010, to December 31, 2013. The procedures performed during this audit included:

- (1) interviewing Alternatives Living employees;
- (2) interviewing other persons as appropriate;
- (3) examining selected Alternatives Living documents and records;
- (4) gathering and examining external parties’ documents and records; and
- (5) reviewing applicable state and federal laws and regulations.

FINDINGS AND RECOMMENDATIONS

Senior Management Officers Used Public Funds for Personal Purposes

From July 7, 2010 to December 20, 2013, Alternatives Living, Inc. (Alternatives Living) senior management officers Melanie Duplechain, Ricky Roberson, and Ada Craige-Roberson incurred expenses totaling \$133,164 that appear to be personal in nature. These expenses included purchases of sports and entertainment event tickets, the lease of a luxury vehicle, the subsequent purchase of a different luxury vehicle, personal travel, and college tuition payments. By using public funds for their personal benefit, Ms. Duplechain, Mr. Roberson, and Ms. Craige-Roberson may have violated state and federal law.³

Alternatives Living is a Louisiana non-profit corporation domiciled in New Orleans. According to its articles of incorporation, Alternatives Living was organized exclusively for charitable, educational, and scientific purposes. During the period of our audit, Alternatives Living was a subrecipient of Community Development Block Grant (CDBG) funds from the United States Department of Housing and Urban Development. CDBG funds were awarded to the Louisiana Department of Health and Hospitals (DHH) for the administration of the Permanent Supportive Housing (PSH) program. The PSH program is a grant program administered by DHH to provide “affordable rental housing with voluntary, flexible, and individualized services to people with severe and complex disabilities, enabling them to live successfully in the community.” Since 2010, DHH has contracted with Alternatives Living to provide housing support services under the PSH program.

Alternatives Living’s senior management includes Chief Executive Officer (CEO) Melanie Duplechain, Chief Financial Officer (CFO) Rickey Roberson, and Director of Programs Ada Craige-Roberson. All members of senior management were issued company credit cards and had signature authority on all company bank accounts. During our audit, we identified Alternatives Living expenses totaling \$133,164 that appear to have been incurred for the personal benefit of Ms. Duplechain, Mr. Roberson, and/or Ms. Craige-Roberson. The total amounts, as well as the types of personal charges/expenses incurred by these individuals, are provided in the following table.

Personal Expenses Incurred by Senior Management Officers		
Expense Category	Expense Description	Expense Amount
Entertainment	Season and single game tickets for the New Orleans Saints, New Orleans Hornets/Pelicans, and event tickets for theatre, concert, and other miscellaneous events.	\$50,795
Vehicle	Lease of 2007 Mercedes-Benz sedan and subsequent purchase of 2011 Mercedes-Benz sedan provided to Ms. Duplechain, including auto insurance payments.	48,829
Vehicle Repairs	Repairs to personal vehicles of Mr. Roberson and Ms. Craige-Roberson.	10,623
Travel	Expenses associated with personal travel by Mr. Roberson and Ms. Craige-Roberson.	9,062
Tuition	Tuition payments to Alcorn State University for Mr. Roberson and Ms. Craige-Roberson's son.	7,288
Life Insurance	Life insurance premiums for policies insuring the lives of Mr. Roberson and Ms. Craige-Roberson.	5,166
Miscellaneous	Satellite radio and spa expense.	1,401
Total		\$133,164

As a non-profit corporation organized exclusively for charitable, educational, and scientific purposes, Alternatives Living's business expenses should be consistent with its corporate purposes. However, the expenses noted above appear to be inconsistent with these purposes. Moreover, senior management officers agreed that many of these expenses were personal in nature. In addition, as a subrecipient of CDBG funds, Alternatives Living certified that 100 percent of activities paid for with CDBG grant funds would benefit low-income individuals and families. Since these expenses appear personal in nature, Ms. Duplechain, Mr. Roberson, and Ms. Craige-Roberson may have violated state and federal law.³ The following are specific examples of expenses that appear to have been incurred for the personal benefit of Ms. Duplechain, Mr. Roberson, and/or Ms. Craige-Roberson.

Sports and Entertainment Tickets

From October 8, 2010 to December 20, 2013, Ms. Duplechain, Mr. Roberson, and Ms. Craige-Roberson used Alternatives Living funds totaling \$50,795 to purchase sporting event and other entertainment tickets. This amount included \$46,584 for season and single-game tickets for the New Orleans Saints and New Orleans Hornets/Pelicans, and additional ticket purchases totaling \$2,691 that could not be identified due to a lack of documentation. The remaining \$1,520 was spent on miscellaneous entertainment shows including Cirque Du Soleil, Broadway Across America, and Legends of Hip Hop. Alternatives Living did not maintain documentation to support the business purposes of these charges/expenses.

Ms. Craige-Roberson stated that the initial purpose for obtaining the season tickets (Saints and Hornets/Pelicans) was personal and that the tickets were in her name or her husband's (Ricky Roberson) name. Mr. Roberson stated that he gave approximately half of these tickets to Alternatives Living staff and clients and that the remaining tickets were used by himself and his family. Mr. Roberson provided a list of employees that received sporting event tickets, but there was no documentation to indicate the number, date, value, and business purpose

of the tickets given to employees. Mr. Roberson and Ms. Craige-Roberson acknowledged that the miscellaneous entertainment tickets (Cirque Du Soleil, Broadway Across America, and Legends of Hip Hop) were for personal use.

Lease and Purchase of Luxury Vehicle

From July 12, 2010 to October 5, 2013, Alternatives Living leased a 2007 Mercedes-Benz sedan. On October 5, 2013, Alternatives Living traded in the 2007 Mercedes-Benz sedan and purchased a 2011 Mercedes-Benz sedan. Alternatives Living used funds totaling \$48,829 on lease payments, purchase of the new vehicle, and auto insurance for these vehicles between July 12, 2010 and December 12, 2013.

Ms. Duplechain stated that she used the Mercedes-Benz to commute back and forth to the Southeast Louisiana Hospital (which is now closed) and that she commutes to the Alternatives Living main office from her home. Ms. Duplechain stated that she does not use the vehicle for personal purposes but explained that she used the vehicle out of state for “mainly” business purposes. She explained that she used the vehicle to see her niece graduate in Atlanta, Georgia. According to Ms. Duplechain, this trip was partly business because her niece runs a battered women’s shelter which they discussed during the trip.

Personal Travel Expenses

From January 29, 2011 to September 16, 2013, Mr. Roberson, Ms. Craige-Roberson, and Ms. Duplechain used Alternatives Living credit cards to incur expenses totaling \$9,062 that appear to have been associated with personal travel. Specifically, we identified expenses associated with three Caribbean cruises and a trip to Las Vegas, Nevada, which appear to be personal in nature. The expenses included payments totaling \$4,757 to cruise providers (Carnival and Royal Caribbean), and other travel charges/expenses that included airline baggage fees, hotel lodging, car rental fees, fuel, and meal purchases. The business purpose of these expenses was not documented.

Mr. Roberson and Ms. Craige-Roberson acknowledged that the primary purpose of these trips was personal in nature and the trips included themselves and their two children.^A According to Ms. Craige-Roberson, the payments to the cruise providers were for trip incidentals such as tips, drinks, phone, and Internet charges. Ms. Craige-Roberson added that she and Mr. Roberson used the Internet and phone services for business because they worked during the cruises.

Tuition Payments to Alcorn State University

From June 3, 2011 to July 14, 2011, Mr. Roberson used Alternatives Living funds totaling \$7,288 to make payments to Alcorn State University to pay his son’s tuition. Mr. Roberson indicated that the payments were made pursuant to Alternatives Living’s tuition reimbursement program. We reviewed the tuition reimbursement policy provided by Mr. Roberson which states that “When authorized and available, reimbursement for courses may

^A According to Ms. Craige-Roberson, her children did not travel to Las Vegas, Nevada.

be made after the course is completed with a passing grade of an A or B. The course must be related to Alternatives Living's goals and approved in advance of registration."

During our audit, we determined that Mr. Roberson's son was not an Alternatives Living employee at the time the tuition payments were made. Further, the tuition payments were made directly to the university and not reimbursed to an employee as required by the policy. Alternatives Living had no documentation indicating authorization, a passing grade, or how the course work benefitted Alternatives Living.

Conclusion

From July 7, 2010 to December 20, 2013, Ms. Duplechain, Mr. Roberson, and Ms. Craige-Roberson used public funds totaling \$133,164 for expenses that appear to be personal in nature. Expenses that are personal in nature may violate state and federal law³ and the federal regulations governing allowable costs for federal grant funds.⁴ In addition, expenses that have little or no business purpose may also violate federal law applicable to 501(c)(3) tax-exempt organizations⁵ and subject the individuals that incurred these expenses to additional income taxes and penalties.⁶ Finally, these expenses not only consumed available resources, but because a majority of the expenses were purchased using credit cards, Alternatives Living incurred an additional \$18,818 in late fees, over-limit fees, and interest charges on its credit cards from July 2010 to March 2014.

Expenses Lacked Documentation to Support Business Purposes

From March 10, 2010 to December 27, 2013, Alternatives Living incurred expenses totaling \$247,925 for which there was little or no documentation to support the business purpose of the expenses. These expenses included (1) checks payable to "Cash" totaling \$150,120; (2) \$31,136 in fuel station purchases; (3) \$31,112 in meal purchases at local restaurants; (4) \$29,515 of fundraising expenses; and (5) \$6,042 for "team building" expenses. Because Alternatives Living did not maintain documentation to support these expenses, we could not determine the business purpose, necessity, or reasonableness of these expenses or if the expenses benefitted individuals rather than Alternatives Living's corporate mission. The failure to document the business purpose of these expenses may violate federal regulations governing allowable costs for federal grant funds.⁷

Checks Made Payable to "Cash"

Between July 1, 2010 and January 31, 2013, Alternatives Living management prepared and negotiated 220 checks, totaling \$149,620, made payable to "Cash" and made one \$500 cash withdrawal, for an aggregate amount of \$150,120. Alternatives Living's general ledger indicates that most of these funds were used to purchase fuel, groceries, and other supplies to support clients in a transitional and permanent housing program funded by DHH's Office of Behavioral Health. Additional general ledger entries indicate that these funds were used for building renovations, Christmas party supplies, and office furniture. However, the individual checks were

not supported with a documented business purpose, and there were not always receipts to support the business purposes recorded on Alternatives Living's general ledger.

According to Mr. Roberson, he gave the cash from these checks to the manager on duty at the transitional and permanent housing location, and the manager purchased the necessary supplies. Mr. Roberson added that he used some of the cash for "team building exercises," such as bowling or movies.

Fuel Station Purchases

Alternatives Living senior management officers used company credit cards to make purchases at fuel stations totaling \$31,136 from October 6, 2010 to December 27, 2013. According to Alternatives Living's credit card statements, these purchases were incurred by the following officers in the following amounts:

- \$17,820 - Melanie Duplechain, CEO
- \$10,676 - Ricky Roberson, CFO
- \$2,640 - Ada Craige-Roberson, Director of Programs

Alternatives Living did not maintain documentation to support the business purpose of these expenses. Mr. Roberson stated that he, Ms. Duplechain, and Ms. Craige-Roberson, all work in the field visiting clients and supervising employees. Mr. Roberson stated that Alternatives Living pays the fuel costs for this travel because it is business related. Mr. Roberson acknowledged that some of these fuel purchases may have been used for personal travel.

Meal Purchases

From October 14, 2010 to December 26, 2013, Alternatives Living senior management made meal purchases totaling \$31,112 at local restaurants. This amount included credit card transactions totaling \$26,043 and meals totaling \$5,069, which were paid using company checks. According to Alternatives Living's credit card statements, meal purchases were incurred by the following officers in the following amounts:

- \$16,846 - Ricky Roberson, CFO
- \$7,463 - Melanie Duplechain, CEO
- \$1,734 - Ada Craige-Roberson, Director of Programs

Alternatives Living did not maintain documentation to support the business purpose of these meal purchases. Mr. Roberson stated that the meals were business expenses because he and the other officers discussed business during these meals. Mr. Roberson also acknowledged that some of these meals were not business related.

Fundraising Expenses

From September 15, 2011 to October 20, 2013, Mr. Roberson authorized purchases totaling \$29,515 for annual fundraising events. Expenses incurred for these events included river cruises, bands, photographers, and other miscellaneous expenses. The purchases were made through checks drawn on two of Alternatives Living's bank accounts. Federal regulations specifically prohibit the use of federal grant funds to pay for fundraising expenses.⁸

Alternatives Living did not maintain documentation to support the business purpose of these expenses. Mr. Roberson stated that the annual fundraiser is a costume party, and participants paid \$75 each to attend. According to Mr. Roberson, Alternatives Living typically makes \$1,500 to \$2,000 from these annual fundraisers, and the profits are placed in an "indigent fund" to benefit clients.

Team Building Expenses

From March 10, 2010 to May 31, 2013, Alternatives Living made purchases totaling \$6,042 for bowling, laser tag, movies, and skating events. This amount included credit card transactions totaling \$2,567 and checks totaling \$3,475. According to Alternatives Living's credit card statements, these purchases were incurred by the following officers in the following amounts:

- \$1,144 - Melanie Duplechain, CEO
- \$1,064 - Ricky Roberson, CFO
- \$359 - Ada Craige-Roberson, Director of Programs

Alternatives Living did not maintain documentation to support the business purpose of these expenses. Mr. Roberson stated that these purchases were for "team building exercises" for Alternatives Living employees to help them work together more effectively.

Conclusion

Alternatives Living failed to maintain proper documentation, as required by federal regulations,⁷ to support expenses totaling \$247,925. As a result, we could not determine the business purpose, necessity, or reasonableness of the purchases or if the expenses benefitted individuals rather than Alternatives Living's corporate mission. In addition, federal law prohibits tax-exempt organizations from using proceeds to benefit individuals and/or shareholders.⁵ Undocumented expenses that fail to properly distinguish business expenses from expenses that benefit individuals may violate federal law regarding tax-exempt organizations.^{5,6}

Alternatives Living Improperly Billed DHH for Administrative Labor Costs

From October 21, 2010 to September 28, 2011, Alternatives Living improperly billed the DHH Permanent Supportive Housing (PSH) program \$2,024 for administrative labor costs that it simultaneously billed to non-PSH programs. In addition, Alternatives Living billed the PSH program for an administrative assistant whose work appears to have included non-PSH responsibilities. By billing DHH for these labor costs, Alternatives Living may have violated its contract with DHH and may be required to reimburse DHH for amounts improperly billed.

During our review of Alternatives Living's business records, we identified employees who completed time sheets for the PSH program and completed separate time sheets for work performed on other programs managed by Alternatives Living. We compared time sheets for employees who billed hours to the PSH program to time sheets these same employees completed for other Alternatives Living programs and identified 77 hours that were billed to the PSH program and another program simultaneously. At the PSH rate of \$26.28 per hour, the value of the 77 hours is \$2,024. Further, we found that Alternatives Living billed the PSH program 40 hours per week for an administrative assistant. This employee indicated that she is Alternatives Living's receptionist and that her responsibilities also included work on a separate Alternatives Living program. As a result, Alternatives Living appears to have billed DHH for labor costs incurred on other programs managed by Alternatives Living.

By billing DHH for administrative labor costs that it simultaneously billed to other programs and by billing the PSH program for an administrative assistant whose work included non-PSH job responsibilities, Alternatives Living may have violated its contract with DHH and may be required to reimburse DHH for amounts improperly billed.

Recommendations

We recommend that Alternatives Living:

- (1) develop a written purchasing policy that defines allowable expenses, requires appropriate documentation including the business purpose for all expenses, and which includes a formal review and authorization process for all expenses;
- (2) adopt detailed policies and procedures for the use of credit cards;
- (3) document the business purpose for all credit card expenditures;
- (4) require itemized receipts for meals, as well as the purpose of the meal and a list of people in attendance for all meals purchased with credit cards;
- (5) seek legal advice as to the appropriate actions to be taken related to improper purchases made by employees for their personal benefit;
- (6) seek reimbursement for all non-business expenses incurred by employees;

- (7) discontinue the practice of making company checks payable to “Cash.” Checks to “Cash” represent a poor business practice because the checks do not identify the payee, which reduces accountability;
- (8) reimburse DHH for hours improperly billed to the PSH program; and
- (9) compare time sheets for employees that complete more than one time sheet to ensure that there is no overlapping of hours from different programs prior to submitting invoices for payment.

LEGAL PROVISIONS

¹ **Louisiana Revised Statute (La. R.S.) 24:513 (A)(1)(b)(iv)** defines quasi-public agency as “any not-for-profit organization that receives or expends any local or state assistance in any fiscal year.”

² **La. R.S. 24:513(A)(3)** states, in part, that “the financial statements of the offices of the independently-elected public local officials, including judges, sheriffs, clerks of court, assessors, and district attorneys, all parish governing authorities, all political subdivisions created by parish governing authorities or by law, and all districts, boards, and commissions created by parish governing authorities either independently or in conjunction with other units of government, school boards, district public defender offices, municipalities, all political subdivisions created by municipal governing authorities, and all boards and commissions created by municipalities, either independently or in conjunction with other units of government, city courts, quasi-public agencies, housing authorities, mortgage authorities, or other political subdivisions of the state not included within the state’s Comprehensive Annual Financial Reports, hereinafter collectively referred to as “local auditee,” shall be audited or reviewed by licensed certified public accountants subject to Paragraphs (5) and (6) of this Subsection, but may be audited by the legislative auditor pursuant to Paragraph (4) of this Subsection.”

La. R.S. 24:513(J)(1)(d) states, in part, that “if the state or local assistance received and/or expended by a quasi-public agency or body is commingled with other funds of the quasi-public agency or body then such state or local assistance and other funds of the quasi-public agency or body shall be audited pursuant to Subparagraph (1)(c) of this Subsection.”

³ **La. R.S. 14:67(A)** states, “Theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations. An intent to deprive the other permanently of whatever may be the subject of the misappropriation or taking is essential.”

18 United States Code (U.S.C.) §666(A) defines theft concerning federal funds, in part, as “an agent of an organization who embezzles, steals, obtains by fraud, or otherwise without authority knowingly converts to the use of any person other than the rightful owner or intentionally misapplies, property.”

⁴ **Office of Management and Budget (OMB) Circular A-122(A)(3)(c)** states, in part, that for a cost to be reasonable consideration must be given as to “whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.”

OMB Circular A-122 (B)(8)(g)(4) states, in part, that “Costs of insurance on lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation. The costs of such insurance when the organization is named as beneficiary are unallowable.”

OMB Circular A-122 (B)(8)(h) states, in part, that “That portion of the cost of organization-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct costs to sponsored award when necessary for the performance of the sponsored award and approved by awarding agencies.”

OMB Circular A-122 (B)(14) states, in part, that “Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.”

⁵ **26 U.S.C. Subchapter F – Exempt Organizations Part I – General Rule 501(a) Exemption from taxation** states, “An organization described in subsection (c) or (d) or section 401(a) shall be exempt from taxation under this subtitle unless such exemption is denied under section 502 or 503.”

26 U.S.C. Subchapter F – Exempt Organizations Part 1 – General Rule 501(c) List of Exempt Organizations (3) states, “Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.”

⁶ **26 U.S.C. 4958 (c)(1)(A)** states, “The term ‘excess benefit transaction’ means any transaction in which an economic benefit is provided by an applicable tax-exempt organization directly or indirectly to or for the use of any disqualified person if the value of the economic benefit provided exceeds the value of the consideration (including the performance of services) received for providing such benefit. For purposes of the preceding sentence, an economic benefit shall not be treated as consideration for the performance of services unless such organization clearly indicated its intent to so treat such benefit.”

26 U.S.C. 4958 (a)(1) states, “There is hereby imposed on each excess benefit transaction a tax equal to 25 percent of the excess benefit. The tax imposed by this paragraph shall be paid by any disqualified person referred to in subsection (f)(1) with respect to such transaction.”

⁷ **OMB Circular A-122(A)(2)(g)** states, in part, that for a cost “to be allowable under an award, costs must meet the following general criteria: Be adequately documented.”

⁸ **OMB Circular A-122(B)(17)** states, in part, “Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.”

APPENDIX A

Management's Response

Alternatives Living, Inc.

"Here to serve, advocate for, and support those in need"

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May 5, 2015

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
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Dear Mr. Purpera,

Thank you for the opportunity to review and respond to the findings of the investigative audit report regarding Alternatives Living, Inc. We truly appreciate the courtesy, professionalism and dedication of you and your staff and the tremendous amount of work and time that this requires of your office. While it has been recognized that Alternatives Living has a proven and successful history providing quality services to individuals and families living with developmental disabilities, severe and persistent mental illnesses, physical and medical challenges and homelessness, we understand that some of our past business practices failed to live up to our service standard. We are dedicated to ensuring that in the future, our business practices are as well respected as our services have been.

Prior to receiving the Legislative Auditor's report, Alternatives Living had already begun addressing most of the areas identified in the Legislative Audit, as they were also discovered by our independent auditors. While we will address the specific findings of the legislative audit in the attached addendum, we would like to note that we have worked diligently with our accountants to put policies and procedures in place to rectify the business practice errors cited in this report. These policies and procedures are in line with your recommendations. Specifically, Alternatives Living has:

1. Developed a written policy that defines allowable expenses and specifies authorization, documentation and review requirements for all purchases.
2. Developed detailed policies regarding the use of all company credit cards, including documentation and review requirements for all credit card purchases.
3. Developed policies governing the purchase of meals, including documentation and review requirements for all meals purchased by the company.
4. Developed a written policy prohibiting the practice of writing checks to cash. The practice of writing company checks payable to cash has been discontinued as of January 2013.
5. Revamped the practice of comparing timesheets for employees who work on multiple programs and submit multiple timesheets to ensure that there is no overlapping of hours.

In addition, after it was discovered during our internal audits that there were some past purchases by employees of Alternatives Living that were deemed personal in nature, a plan was developed

for those employees to reimburse the agency. It is the policy of Alternatives Living to seek reimbursement for any past purchases for which there is no verifiable, documented business purpose.

As Alternatives Living moves forward, we will use the information and knowledge gained through this audit process to ensure that our business practices reflect our commitment to quality in everything that we do. We are committed to transparency, and have always freely opened our books and records for review. We have, and will continue to take an introspective look at ourselves to enhance our policies and practices, and to strengthen oversight and accountability. We believe at this point in time, we have an excellent foundation upon which to build.

Alternatives Living appreciates the opportunity to respond to this investigative audit report.

Respectfully,



Melanie Duplechain, PhD
CEO

ADDENDUM: Alternatives Living, Inc. Response to Investigate Audit Report

FINDING #1: Senior Management Officers Used Public Funds for Personal Purposes

RESPONSE #1:

Prior to and during the period in question, Alternatives Living had deposits in our accounts that were not public funds. However, as a result of our failure to properly segregate our financial accounts, we understand that it was not possible for the auditors to determine from which funds expenses were paid. Alternatives Living has been working closely with our accountants to ensure that all accounts are appropriately segregated and have instituted policies and procedures to safeguard against the personal use of any Agency funds. To date, Mr. Roberson and Ms. Craige-Roberson has paid back over \$20,000. In addition, Ms. Duplechain, Mr. Roberson and Ms. Craige-Roberson have been making bi-weekly payments towards expenses that were deemed of a personal nature.

Alternatives Living and it's officers did not knowingly or intentionally misuse public funds. While we understand the findings of the audit, at the time of expenditure, many of the items mentioned under this section were believed to be for business purposes. However, through many hours of consultation with accountants, DHH, independent auditors, and the Legislative Auditors office, we have more clearly defined allowable expenses.

FINDING #2: Expenses Lacked Documentation to Support Business Purposes

RESPONSE #2:

Alternatives Living has worked diligently to put policies and procedures in place and established internal controls to ensure that all expenses are appropriately documented.

FINDING #3: Alternatives Living Improperly Billed DHH for Administrative Labor Costs

RESPONSE #3:

Alternatives Living did not knowingly or intentionally improperly bill DHH for administrative labor costs. We have put systems in place to compare and double check all time sheets of employees who work in multiple programs during the same period to ensure that there aren't any overlaps in billing.

The administrative assistant that was billed to DHH was hired to work with Alternatives Living's PSH program, and was employed full-time in that capacity.

ALTERNATIVES LIVING'S RESPONSE TO RECOMMENDATIONS:

1. Develop a written policy that defines allowable expenses, requires appropriate documentation including the business purpose for all expenses, and which includes a formal review and authorization process for all expenses.

Response: Alternatives Living, Inc. has developed a written policy that defines allowable expenses and specifies authorization, documentation and review requirements for all purchases.

2. Adopt detailed policies and procedures for the use of credit cards.

Response: Policies and procedures have been implemented in reference to the use of Alternatives Living credit cards. Alternatives Living credit cards shall only be used for business purposes that can be documented as such. Documentation of credit card use shall include the names of persons involved as well as an explanation of the business purpose.

3. Document the business purpose for all credit card expenses.

Response: Policies and procedures have been implemented in reference to the use of Alternatives Living credit cards. Alternatives Living credit cards shall only be used for business purposes that can be documented as such. Documentation of credit card use shall include person(s) involved, reason for use and/or business purpose.

4. Require itemized receipts for meals, as well as the purpose of the meal and a list of people in attendance for all meals purchased with credit cards.

Response: Itemized receipts for meals shall include: name(s) of all persons in attendance, purpose of the meal, how it relates to Alternatives Living business for all meals purchased with company credit card.

5. Seek legal advice as to the appropriate actions to be taken related to the improper purchases made by employees for their personal benefit.

Response: Alternatives Living has sought legal advice as to the appropriate actions to be taken related to improper purchases made by employees for personal benefits and were advised that repayment of improper purchases is the appropriate course of action.

6. Seek reimbursement for all non-business expenses incurred by employees.

Response: Reimbursement arrangements for all non-business expenses incurred by employees are currently in place.

7. Discontinue the practice of making company checks payable to cash. Checks to cash represent a poor business practice because the checks do not identify the payee which reduces accountability.

Response: Alternatives Living has discontinued the practice of writing checks to cash. According to our records, there has not been a check written to cash since January 31, 2013.

8. Reimburse DHH for hours improperly billed to the PSH program.

Response: To our knowledge, Alternatives Living has not improperly billed hours to DHH.

9. Compare timesheet for employees that complete more than one timesheet to ensure that there is no overlapping hours from different programs prior to submitting invoices for payment.

Response: Systems are in place to compare and double check all time sheets of employees who work in multiple programs during the same period.