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State Auditor Cites DHHS Grantee as "Fiscal Train Wreck"

State Auditor Mike Foley released a report today containing startling findings from his staff's audit of the nonprofit Karen Society of Nebraska (Society), which has received considerable funding through, among others, the Nebraska Department of Health and Human Services (DHHS). Authorized by law to examine any nonprofit entity that expends public funds to carry out a State or Federal program or function, Foley's office found the Society to be plagued by an apparently wanton disregard for ethical financial practices. "Our audit work revealed," Foley declared, "what gives every indication of being a deliberate and ongoing pattern of monetary mismanagement and abuse that demands the immediate attention of law enforcement."

Named for the Karen people, a large ethnic group in Southeast Asia, the Society has operated for 15 years and maintains offices in Lincoln, Omaha, and Madison, Nebraska. Its stated mission is "to help refugees and immigrants from Burma [known to many as Myanmar since 1989] build and sustain a high quality of life and achieve self-sufficiency in the state of Nebraska." Despite such a lofty-sounding purpose, Foley's audit team believes that over 99% of the government grant funding channeled to the Society was spent improperly. Much of that alleged fiscal abuse resulted from the Society's charging its operating expenses improperly to multiple grant awards – a practice expressly prohibited by governing Federal regulations.

Additionally, the report details expenditures of government funds in ways that defy even the most basic common sense – such as paying to translate into English a publication titled "Prepare for a hurricane or tropical storm." An exasperated Foley asked, "Who's bright idea was it to use public monies to translate brochures for Burmese refugees living in Nebraska on how to prepare for a hurricane or tropical storm?" He added, "I hadn't noticed the weather patterns in Nebraska changing all that much. This is pure idiocy."

Another concern addressed by the audit team was the Society's apparent effort to circumvent Federal record-keeping requirements by designating certain employes, including the Executive Director, as independent contractors rather than employees. Doing so flies in the face of the clear employment classifications set out in the Fair Labor Standards Act, which identifies an employee as someone whose work is "critical, necessary, or central to the potential employer's principal business." Foley observed, "An Executive Director whose work is not critical, necessary, or central to the entity being managed isn't good for much."

Illustrative of the Society's apparent penchant for playing fast and loose with public funds was its spending hundreds of dollars on a new printer, ink, and carrying case only two days before expiration of the grant responsible for the acquisition money. "While the dollars expended were not particularly large," Foley explained, "this type of transaction is a red flag to auditors, indicating incompetence if not outright impropriety."

Sloppy accounting practices and poor record keeping seem to have been the order of the day at the Society, too. The audit team asked the Executive Director to provide copies of meeting minutes for the Board of Directors, hoping to find therein indication of formal approval, along with supporting documentation, for thousands of dollars of claimed expense reimbursements paid to him. Unfortunately, no response was forthcoming.

Moreover, the auditors found that over 1,300 hours of service claimed to have been worked by the Executive Director for the Society overlapped with hours recorded on his timesheets with another full-time employer of his. The cost of those conflicting hours, which the Society paid, exceeded $23,000.

The Society was incapable also of providing Foley's audit staff with copies of Federally required nonprofit tax returns for the two most recent years – leading to the conclusion that, in all probability, the documents were never filed. If submitted properly, the auditors noted, the forms should have appeared on the Internal Revenue Services' public website; however, they did not. Similarly, the Society failed to prepare any year-end Form W-2 (for employees) or Form 1099 (for contractors) tax statements for its personnel – also in clear violation of Federal and State laws.

Particularly troublesome was the continual uncooperativeness of the Society's Executive Director, who declined to explain why the audit team's routine requests for documents and accounting records went largely unanswered. Such noncompliance by a governmental auditee would constitute a violation of State statute, resulting in possible criminal sanctions. "Had the Society been subject to the same law that applies to public entities being audited by my office," Foley stated, "the Executive Director would have sung a very different tune or be facing serious repercussions right now."

Numerous peculiar transfers of funds were recorded as "loan payments" on the Society's accounting books, the auditors found. The purposes of 14 such separate expenditures, totaling nearly $100,000, could not be determined but appear to have been tied to the purchase of real estate. Society representatives dismissed with impunity all requests for information regarding those remittances. Other suspicious expenditures by the Society included two checks for $10,000 each – one recorded as a mortgage payment and the other as a payment to an individual – and a cash withdrawal in the same amount by a Society employee. As with other audit inquiries, questions about these three $10,000 disbursements went unanswered.

Particularly odd, as well as more than a little troubling from an auditing perspective, the property currently used to house the Society's office in Lincoln is titled in the name of the Executive Director. However, the Society appears to be making regular mortgage payments on that real estate, which the Lancaster County Assessor has valued at $258,100. "Such an arrangement," Foley observed, "is highly peculiar and has the odor of impropriety."

Furthermore, a review of the checking account activity for the Lincoln office showed multiple fund transfers, totaling $18,900, to an unknown PayPal account. A number of those unexplained payments went through Alipay, which is a third-party online payment platform established in China. The auditors found another 31 mysterious fund transfers, totaling $14,649, that were processed through Western Union. Despite repeated inquiries by Foley's audit team, the Society provided no documentation or explanation whatsoever for any of the strange bank activity noted.

As if all of the fiscal shortcomings and peculiarities recounted thus far were not more than enough to arouse serious unease in even the most casual observer, the auditors confirmed that – to the limited extent records were made available for review – the Society's accounting ledgers were riddled with errors, and the many bank accounts held by each of its three offices were unreconciled.

Financed primarily by donations, Federal, State, and local government funding, as well as money from Duke University, the Society is, in Foley's words, a "fiscal train wreck and disgrace in terms of financial accountability." Foley concluded, "What has happened here is an affront to taxpayers. It must be stopped and never repeated."

A full copy of the report is available on the Nebraska Auditor of Public Accounts' website at auditors.nebraska.gov.

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