

# **Office of Inspector General**

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**U.S. Department of Labor  
Office of Audit**

## **Postaward Survey of the Devereaux Corporation Welfare-to-Work Competitive Grant**

Report Number: 03-00-006-03-386  
Date Issued: May 22, 2000

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## ACRONYMS

CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
Devereaux	Devereaux Corporation
ETA	Employment and Training Administration
FARs	Federal Acquisition Regulations
GOTR	Grant Officer's Technical Representative
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIC	Peoples Instrument Corporation
TANF	Temporary Assistance for Needy Families
WtW	Welfare-to-Work

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## **EXECUTIVE SUMMARY**

The U.S. Department of Labor (DOL) Employment and Training Administration (ETA) awarded the Devereaux Corporation (Devereaux) a \$3,044,457 Welfare-to-Work (WtW) competitive grant on September 30, 1999. Devereaux is located in Lanham, Maryland.

The Office of Inspector General (OIG) performed a postaward survey of Devereaux's WtW competitive grant program. The purpose of our survey was to examine Devereaux's financial management and program systems and make an assessment of the Devereaux Corporation's capability to administer the grant in accordance with the applicable regulations.

## **FINDINGS**

Our major concern is that Devereaux does not have either the experience or past performance record that is presented in the grant application and which formed the basis for the competitive award. Therefore, the awarding of this grant may have deprived a more qualified applicant from receiving a WtW competitive grant. We are also concerned with the manner in which Devereaux is administering its WtW grant because we found a number of instances in which Devereaux is not complying with the WtW regulations.

Specifically, our survey of Devereaux's WtW program disclosed:

- Devereaux did not accurately represent itself in the grant proposal.
- Devereaux's grant fund drawdowns exceeded actual disbursements by over \$247,000.
- The approved grant budget included excessive and questionable costs.
- Staff salaries appear unreasonable.
- Devereaux incurred questionable transportation and travel costs.
- There was no fidelity bond to protect the Government's interest.

It is our opinion that these problems, taken as a whole, clearly demonstrate that Devereaux is not the organization that it portrayed in the grant application and it does not have the capability to comply with the WtW regulations.

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During an April 7, 2000, meeting between the Assistant Secretary for Employment and Training and the Assistant Inspector General for Audit, the problems with Devereaux's WtW grant were discussed. The Assistant Secretary for Employment and Training shared OIG's concerns and expressed his intent to review all relevant information and take appropriate action including possible termination. On April 13, 2000, we met with the ETA Grant Officer and the Director of the Office of WtW to present the results of our survey. The ETA Grant Officer told us that on April 7, 2000, she removed Devereaux's access to the advance Payment Management System and put it on a cost reimbursement basis.

### **RECOMMENDATIONS**

We recommend that the Assistant Secretary for Employment and Training direct the ETA Grant Officer to take the steps necessary to terminate Devereaux's WtW grant at the earliest possible time for failure to respond fairly and accurately to ETA's grant solicitation, upon which this competitive grant was awarded, and for failure to demonstrate that Devereaux can administer the WtW grant according to the WtW regulations.

We also recommend that the Assistant Secretary for Employment and Training:

- Recover the unexpended grant funds, including any interest earned on the excess cash balance.
- Disallow and recover the incurred questionable costs.
- Require that non-governmental WtW grantees obtain a fidelity bond as a condition for receiving grant funds.

### **AGENCY'S RESPONSE**

In his written response to our draft report, the Assistant Secretary for Employment and Training stated that he accepted our draft report.

The Assistant Secretary for Employment and Training's response can be found in the report appendix.

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### **OBJECTIVES, SCOPE, METHODOLOGY, AND CRITERIA**

The purpose of our survey was to examine Devereaux's financial management and program systems and make an assessment of its capability to administer the grant in accordance with the applicable WtW regulations. Our work was performed using a postaward survey guide designed by OIG.

During the period March 27-30, 2000, we conducted an examination of the grantee's financial management and program systems currently operating or being planned to administer their WtW grant. We analyzed the grant agreement, grant proposal, and operating procedures and policies. We also interviewed Devereaux's Executive Director.

At the completion of our review, we met with the ETA Grant Officer and the Director of the Office of Welfare-to-Work to discuss our concerns regarding Devereaux's administration of its WtW grant.

The following criteria were used:

- WtW regulations Title 20 Code of Federal Regulations (CFR) Part 645, dated November 18, 1997;
- regulations contained in Title 29 CFR Part 95, dated July 27, 1994 which prescribe general administrative requirements; and
- cost principles detailed in the Office of Management and Budget (OMB) Circular A-122, as amended, dated August 29, 1997.

Our examination was performed in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States.

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## **BACKGROUND**

The WtW program was authorized by the Balanced Budget Act of 1997 to move hard-to-employ welfare recipients (individuals enrolled in the Temporary Assistance for Needy Families (TANF) program) into unsubsidized employment and economic self-sufficiency. According to WtW regulations, at least 70 percent of the grant funds must be spent on TANF recipients who meet one of the following criteria: (1) have received assistance for at least 30 months, (2) are within 12 months of reaching their TANF time limit, or (3) have exhausted their receipt of TANF assistance due to time limits. Noncustodial parents are also eligible if they meet various criteria provided in the WtW regulations. Grantees can spend 30 percent of the grant funds on TANF recipients who have characteristics associated with long-term dependency or have significant barriers to self-sufficiency under criteria established by the local Private Industry Council. Also, 30 percent of the funds can be spent on youth aged 18-25 who have “aged out” of foster care and custodial parents with income below the poverty line.<sup>1</sup>

The Balanced Budget Act of 1997 authorized \$3 billion for WtW grants in Fiscal Years 1998 and 1999. Of this amount, 25 percent has been awarded through a competitive grant process to selected Private Industry Councils, political subdivisions, public and private colleges and universities, and private entities. According to the third round solicitation for competitive grants, private entities include both nonprofit and for profit organizations but do not include individuals.

The WtW competitive grants are designed to develop and implement creative and innovative approaches to enhance a community’s ability to achieve WtW goals. On January 26, 1999, ETA announced a third round of WtW competitive grants. ETA’s announcement described the conditions under which applications would be received and how they would determine which applications to fund.

Devereaux was awarded a \$3,044,457 WtW competitive grant on September 30, 1999. Devereaux is a nonprofit corporation located in Lanham, Maryland. As of December 31, 1999, Devereaux reported no enrollments and \$58,527 in WtW grant fund expenditures.

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<sup>1</sup>This reflects the changes to the eligibility criteria as a result of the Welfare-to-Work and the eligibility changes for competitive grants were effective January 1, 2000.

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## FINDINGS

### 1. Devereaux Did Not Accurately Represent Itself in the Grant Proposal

Devereaux represented itself in the grant proposal as an operational organization with an established performance record. The grant agreement stated that Devereaux is located in the State of Maryland with its project service area in Prince George's County. The grant proposal further showed that Devereaux intended to make a cash contribution to, and leverage additional resources in support of, the WtW program. However, we found that:

- a. Devereaux was not an operational organization with an established performance record.
- b. Devereaux was not licensed to operate in the State of Maryland when it applied for, and was awarded, the WtW competitive grant.
- c. Devereaux's Executive Director did not obtain authorization from its Board of Directors to apply for, or accept, the WtW grant as required by the articles of incorporation.
- d. The cost sharing/leveraging section in Devereaux's budget was misleading.

As a result, we concluded that Devereaux's grant proposal, which formed the basis for its competitive grant award, did not accurately represent Devereaux's true condition or capability to administer the grant.

ETA's January 26, 1999, solicitation for third-round WtW competitive grants described the conditions under which applications would be received and how they would determine which applications to fund. One of the five criteria established was "Demonstrated Capability" which considers the extent to which the applicant demonstrates a history of success in serving a comparable target group, the extent of use of current or former welfare recipients in the provision of services, and the extent to which the applicant demonstrates the ability to effectively execute grant management responsibilities. This specific criterion represents a total of 10 of the 100 points available under the established application review criteria.

The Application for Federal Assistance, which Devereaux's Executive Director signed on April 30, 1999, contains the following certification statement — "To the best of my knowledge and belief, all data



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in this application/preapplication are true and correct. The document has been duly authorized by the governing body of the applicant and the applicant will comply with the attached assurances if the assistance is awarded.”

We found the following inconsistencies in our comparison of the grant proposal to Devereaux’s performance record and organizational capability.

**a. Devereaux was not an operational organization with an established performance record.**

Until it was awarded the WtW grant, Devereaux, with the exception of two small government-funded grants totaling approximately \$8,000, existed only on paper and had no experience administering government-funded programs. The performance history represented in the grant agreement proposal is the Devereaux’s Executive Director’s personal work experience rather than Devereaux itself.

The current status of Devereaux’s WtW program is reflective of a start-up organization. At the time the grant was awarded, Devereaux was located at the Executive Director’s private residence. We found that Devereaux lacked an administrative structure. Specifically, Devereaux did not have an accounting manual or procedures, or operating procedures covering personnel and procurement. There were neither job descriptions, including staff qualifications, nor a staff compensation plan. Devereaux only recently had established its accounting system.

The grant proposal did not accurately reflect Devereaux’s performance history. Instead, the performance history presented was the personal work history of Devereaux’s Executive Director while she was self-employed or employed by other organizations. The following are examples in the grant agreement proposal in which Devereaux’s performance history was not accurate.

- In the section of the grant proposal entitled “Positive Life Skills & Personnel Development Programs,” there was a statement that over the last 3 years, Devereaux delivered various training programs such as counseling services to people from all walks of life. This statement was reflective of Devereaux’s Executive Director’s past work experience and not that of Devereaux as an organization.
- In the section of the grant proposal entitled “Business Development Expertise,” there was a paragraph citing experience in administering U.S. Department of

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Housing and Urban Development (HUD) programs. It described how “key management” designed and managed a business improvement office. However, Devereaux’s Executive Director told us this was actually her work experience when she was an employee of the Peoples Instrument Corporation (PIC) from 1987 to 1995. PIC, a nonprofit corporation which operated in the District of Columbia, was dependent upon HUD funding and was involved in business and economic development activity.

- Attached to the grant proposal was a resume of Devereaux’s Executive Director under the name of Devereaux. There was a section in this attachment entitled “Company Achievements, Experience & Qualifications” which contained the following statements:

Awarded Federal & Private Sector Contracts: Labor Dept., Treasury Dept., M-NCPPC, Prince George’s College, Private Industry Council.

Assume Management of Federal & Municipal Government Programs

We found that the only evidence of grant or contract awards to Devereaux were two grants totaling \$8,035 from the State of Maryland in 1998.

We concluded that Devereaux had little, if any, experience in serving the intended target group and the experience presented in the grant proposal represents the personal work history of Devereaux’s Executive Director as an individual. As stated in the grant solicitation, individuals are not eligible applicants for WtW competitive grants.

**b. Devereaux was not licensed to operate in the State of Maryland at the time it applied for, and was awarded, the WtW competitive grant.**

On April 27, 1999, Devereaux’s Executive Director submitted an Application for Federal Assistance including a grant proposal package to ETA’s Division of Finance Assistance. The grant was awarded on September 30, 1999. The grant proposal showed that Devereaux was located in Lanham, Maryland, and that its project service area would be specific areas within Prince George’s County. Thus, the grant proposal implied that Devereaux was authorized to operate in the State of Maryland.

We found that Devereaux was not licensed to operate in the State of Maryland at the time of the grant application or at the time the WtW competitive grant was awarded. Devereaux was incorporated in the District of Columbia on March 6, 1991. Also, Devereaux was duly

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incorporated and existed pursuant to and by virtue of the Nonprofit Corporation Act of the District of Columbia and was authorized to conduct its affairs in the District of Columbia. A Certificate of Good Standing was issued by the District of Columbia on June 12, 1995.

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Devereaux had not registered as a foreign corporation in the State of Maryland which requires a one time filing fee and a copy of their Articles of Incorporation.

**c. Devereaux's Executive Director did not obtain authorization from its Board of Directors to apply for or accept the WtW grant.**

Implicit in the grant agreement was the presumption that Devereaux's Executive Director was authorized to apply for the WtW grant on behalf of Devereaux. However, we found that Devereaux's Articles of Incorporation required that the Board of Directors manage and administer the affairs of the corporation. Devereaux's Executive Director did not obtain the authority from the Board of Directors to apply for and accept the WtW grant.

In signing the grant application, Devereaux's Executive Director certified that to the best of her knowledge and belief, the document was duly authorized by the governing body of the applicant. The grant application is made part of the grant agreement when the grant is executed.

There were four individuals identified on Devereaux's Board of Directors in the Articles of Incorporation. These individuals were Devereaux's Executive Director, her mother, and her two sisters. Three of these four individuals are the incorporators of the corporation. The fifth Article of Incorporation states that the management and administration of the affairs of the Corporation shall be carried out by the Board of Directors of the corporation who shall be elected in the manner set forth in the by-laws of the corporation. Although we made several requests, neither the by-laws nor the Board meeting minutes were made available for review.

The Executive Director of Devereaux violated the Articles of Incorporation by **not** informing two of the four members of the Board of Directors that she had applied for and been awarded this WtW grant. Also, the two Board members have also been excluded from participating in the current management affairs of Devereaux.

**d. The cost sharing/leveraging section in Devereaux's budget was misleading.**

The cost sharing/leveraging summary section in Devereaux's budget is misleading. We found that the value of the resources Devereaux cited for cost sharing/leveraging was significantly overstated.

ETA's solicitation for third-round WtW competitive grants described the conditions under which applications would be received, and how ETA would determine which applications to fund. While the announcement stated that there is no matching or cost-sharing requirement for WtW competitive grants, the applicant was asked to identify specific financial and other resources and

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organizational/service provider capabilities which are being contributed to provide a full range of assistance to the identified target group for the project. The integration of resources was evaluated under the “Local Collaboration and Sustainability” criteria which, taken as a whole, represents a total of 25 of the 100 points available under the established application review criteria.

The cost sharing/leveraging summary section in Devereaux’s budget contains a cash contribution of \$300,000 from the sale/donation of company property to provide temporary shelter. However, we found that Devereaux does not own any property. Instead, the property cited as part of cost sharing/leveraging is the Devereaux Executive Director’s private residence. The value of the property cited in the grant agreement is overstated. The Executive Director told us its current value is \$200,000 with an outstanding mortgage of \$150,000 resulting in a net equity of \$50,000. Additionally, the Executive Director said she had no plans to sell the residence in order to provide a cash contribution for Devereaux’s WtW grant, but rather, the residence would be available for participants if a need arose.

The cost sharing/leveraging section also contains an item labeled “HUD/Other Leveraging.” This represents an infusion of HUD dollars and the value of properties purchased in empowerment zones and enterprise communities for use as temporary and transitional housing totaling \$700,000. However, we found there is no evidence of an infusion of HUD dollars, nor is there any plan, past or present, to purchase HUD properties.

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### **2. Devereaux's Grant Fund Drawdowns Exceeded Actual Disbursements by Over \$247,000**

Devereaux's \$577,000 in cash drawdowns from the advance Payment Management System far exceeded its actual cash disbursements. As of January 31, 2000, cash drawdowns totaled \$330,000 while costs totaled only \$82,277. This left an excessive cash balance on hand of \$247,723. Subsequent to January 31, 2000, Devereaux made two additional drawdowns totaling \$247,000. Cost data subsequent to January 31, 2000, were not yet available to determine the excessive cash balance on hand after the two additional drawdowns. However, at the time of our visit to Devereaux, its WtW program was barely operational with limited enrollment and staff expenses.

Title 29 CFR Part 95 establishes uniform administrative requirements for Federal grants and agreements awarded to nonprofit organizations. Section 95.22(b)(2) states:

. . . Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

Devereaux's actions were in violation of the administrative regulations in section 95.22 because its drawdowns were in excess of its actual disbursements.

ETA took action to remove Devereaux from the advance Payment Management System shortly after we informed it of Devereaux's excessive drawdowns. On April 7, 2000, ETA's Grant Officer verbally informed Devereaux's Executive Director that she was removing Devereaux from the advance Payment Management System. In order to receive grant funds, Devereaux must submit an invoice outlining its funding activities and expenditures. Written notification confirming ETA's decision was sent to Devereaux on April 24, 2000.

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### 3. The Approved Grant Budget Included Excessive and Questionable Costs

There were line item costs in Devereaux's approved grant budget that were excessive and questionable.

We examined the approved grant budget in the grant agreement and supporting documentation and found the following:

#### a. Indirect Cost Charges

There is a temporary indirect cost billing rate of \$531,275 for the first 90 days of the grant period. This billing rate is based on the fact that the grantee had not established an indirect cost rate. However, our analysis of Devereaux's income statement as of January 31, 2000, concluded that the WtW competitive grant is the organization's only source of funds. Because there is no more than one cost objective, an indirect cost billing rate and any indirect cost charges are not appropriate.

#### b. Contractual Services

The grant budget includes a line item for contractual services which totals \$300,000. Devereaux intends to engage 10 industry specialists at a cost of \$10,000 per year for 3 years to conduct training and/or presentations to participants concerning their particular occupational/industry areas. No cost or price analysis was available to evaluate the reasonableness of the contractual services.

It is our position that this type of training and service may be available as a public service through either the local Chamber of Commerce or Workforce Development Board or on a consultant basis at less cost.

#### c. Administrative Cost Limitation

Administrative costs included in the approved grant budget greatly exceed WtW's 15 percent administrative cost limitation.

The WtW regulations in 20 CFR 645.235 specifically require that recipient or subrecipient costs for overall program management, program coordination, and general administrative functions be

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charged to the administrative cost category and that the administrative expenditures not exceed 15 percent of the grant award.

Devereaux's WtW grant award totaled \$3,044,457 and the indirect cost billing rate is \$531,275. Two administrative staff positions, finance/accounting manager and computer systems designer and analyst, included in the personnel section of the grant budget total \$348,600 plus fringe benefits. The sum total of these administrative cost items equal \$879,875, or 28.9 percent of the Federal grant award.



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### 4. Staff Salaries Appear Unreasonable

Devereaux does not have an established compensation plan upon which to base the salary levels included in the WtW grant. The current annual salary levels for the Executive Director and the Deputy Director, which total over \$180,000, are not included in the grant budget. The grantee has not developed either staff position descriptions or staff qualifications to support current compensation levels.

Our examination of biweekly payroll charges revealed that the Executive Director is being compensated at a rate of \$103,000 per year and the Deputy Director at a rate of \$77,700 per year. The Deputy Director is the Executive Director's mother whose prior work experience was as a nurse. The Executive Director told us that all salary levels would be based upon prior work experience. However, she did not provide the documentation or the specific examples necessary to support either the current salary charges or the salary levels included in the grant budget.

Section 645.230 (c)(2) of the WtW regulations states that nonprofit organizations must determine allowability of costs in accordance with OMB Circular A-122, "Cost Principles for Non-Profit Organizations." OMB Circular A-122, Attachment B, revised August 29, 1997, item 6(c)(2) states that when the organization is predominantly engaged in federally-sponsored activities and in cases where the kind of employees required for the Federal activities are not found in the organization's other activities, compensation for employees on federally-sponsored work will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.

We concluded that, in the absence of a staff compensation plan, the salary levels for the Executive Director and Deputy Director appear unreasonable.

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### 5. Devereaux Incurred Questionable Transportation and Travel Costs

Devereaux incurred \$1,995 in costs which are both unreasonable and unnecessary. As a result, these costs do not meet the standards set forth in the WtW regulations.

Section 645.230 (c)(2) of the WtW regulations states that nonprofit organizations must determine allowability of costs in accordance with OMB Circular A-122, "Cost Principles for Non-Profit Organizations." OMB Circular A-122, Attachment A, states that a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur such cost.

The following are details of our examination of costs incurred by Devereaux.

#### a. Transportation Costs

Devereaux charged \$1,320 for renting a Jeep for 4 weeks to move office supplies and furniture from the Executive Director's residence to the current office location. This cost is excessive and unnecessary. The rental of a truck on a daily basis to transport supplies and furniture to a new location in the immediate area would have achieved the same results at a much lower cost.

#### b. Travel Costs

Devereaux charged \$675 for lodging expenses at a Washington, D.C., hotel. The Executive Director attended ETA's financial management training session which took place February 7-11, 2000. The hotel is approximately 15 miles from the Executive Director's private residence. While the attendance at the training session was necessary to receive technical assistance and training for the WtW program, we concluded the lodging expenses were unnecessary given the proximity of the Executive Director's residence to the training location.

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### **6. There Was No Fidelity Bond to Protect the Government's Interest**

For Devereaux's WtW grant, no fidelity bond has been purchased to protect the Government's \$3,044,457 interest in the grant award.

Title 29 CFR 95.21 (d) states that DOL may require adequate fidelity bond coverage where the recipient lacks sufficient coverage to protect the Federal Government's interest. The cost of bonding pursuant to the terms of the contract is an allowable cost under OMB Circular A-122, Attachment B, revised August 29, 1997. There is no fidelity bonding requirement under this grant.

Devereaux's lack of experience in administering Federal grants and the results of our survey clearly demonstrate that the Federal Government's financial interest would have been better protected had a fidelity bond been required.

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### Recommendations to the Assistant Secretary for Employment and Training

It is our opinion that the problems presented in this report clearly demonstrate that Devereaux is not the organization that it portrayed in the grant application, and it does not have the capability to administer the grant according to the WtW regulations. Therefore, to safeguard the WtW grant funds, we recommend that the Assistant Secretary for Employment and Training:

1. Direct the ETA Grant Officer to take the steps necessary to terminate Devereaux's WtW grant at the earliest possible time for failure to respond fairly and accurately to ETA's grant solicitation, upon which this competitive grant was reviewed and awarded, and for failure to demonstrate that Devereaux can administer the WtW grant according to the WtW regulations.
2. Recover the unexpended grant funds, including the interest earned on the excess cash balance.
3. Disallow and recover the incurred transportation and travel costs of \$1,995 which we questioned in Finding Number 5.
4. Require that non-governmental grantees obtain fidelity bonds to help safeguard Federal grant funds.

AUDITEE COMMENTS