

**Memorandum**

APR 13 1993

Date

From

Bryan B. Mitchell *Bryan Mitchell*  
Principal Deputy Inspector General

Subject

Follow-up on Audits of Grants Made by the Office of Community Services  
(A-12-92-00043)

To

Laurence J. Love  
Acting Assistant Secretary, Administration for  
Children and Families

Attached is our final follow-up report on actions taken in response to our earlier audits<sup>1</sup> of four grants awarded by the Office of Community Services (OCS). The OCS is a component within the Administration for Children and Families (ACF) tasked with administering grants for program activities which will result in direct benefits to low-income people. The ACF has responsibilities for processing monetary audit disallowances and OCS oversees other audit recommendations designed to improve the program.

We followed up to assess the ACF's handling of disallowances and the OCS oversight of grantee actions in implementing procedural recommendations. In accomplishing our task we: (1) reviewed three audits of four discretionary grants made by OCS, (2) reviewed corrective actions reported by the grantees, (3) assessed the establishment of accounts receivable for audit disallowances, and (4) determined whether appropriate, timely collections had been accomplished on the accounts receivable.

We found that ACF had not acted adequately on some monetary disallowances and OCS oversight of grantee actions on non-monetary recommendations needs improvements. While the OCS has provided limited oversight to grantees in correcting non-monetary findings, some monetary disallowances were not properly demanded, recorded as accounts receivable in a timely manner and collected from grantees by ACF. As a result, over \$1.0 million in

---

<sup>1</sup> These audit reports included: Union Sarah Economic Development Corporation (CIN: A-07-91-00413), Community Services Programs of West Alabama, Inc. (CIN: A-04-89-03501), and Centro Campesino Farmworkers Center, Inc. (CIN: A-04-91-00020). The findings, recommendations and resulting actions are discussed in the Results section of the report.

Page 2 - Laurence J. Love

funds related to these grants either remain unexpended by the grantee or relate to questionable expenditures that require further documentation to resolve whether the expenses claimed are allowable.

A draft of this report was provided to ACF officials, and their comments have been incorporated where appropriate. In responding to the draft (Attachment), the Acting Assistant Secretary stated that ACF had no basis for disagreement with the report. The ACF accepted the recommendations and agreed to take steps to implement them within the limitations of current staffing resources.

We would appreciate receiving a written response on any further actions taken with regard to this report within the next 60 days. Should you wish to discuss this report, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Administrations of Children, Family, and Aging Audits, at (202) 619-1175.

Attachment

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**FOLLOW-UP ON AUDITS OF GRANTS  
MADE BY THE OFFICE OF COMMUNITY  
SERVICES**



A-12-92-00043

**Memorandum**

Date . APR 13 1993

From Bryan B. Mitchell *Bryan Mitchell*  
Principal Deputy Inspector/General

Subject Follow-up on Audits of Grants Made by the Office of Community Services  
(A-12-92-00043)

To Laurence J. Love  
Acting Assistant Secretary, Administration for  
Children and Families

This follow-up report presents the results of our review of selected Administration for Children and Families' (ACF) actions on audit disallowances and Office of Community Services (OCS) oversight of grantee actions implementing procedural and monetary recommendations in our three earlier audit reports<sup>1</sup> of discretionary grants awarded by the OCS. The OCS is a component within the ACF tasked with administering grants for program activities which will result in direct benefits to low-income people. The ACF has responsibilities for processing monetary audit disallowances and OCS oversees other audit recommendations designed to improve the program.

We reviewed the audit recommendations related to four grants and subsequent actions taken by the ACF, OCS and grantees on those recommendations. We found that OCS had provided only limited oversight of grantee actions to implement procedural recommendations. The ACF had not properly demanded from the grantee one recommended disallowance. Another disallowance had not been recorded as an account receivable and collected. As a result, over \$657,000 of unexpended grant funds had not been returned to the ACF. At the time of our review, ACF grant files lacked documentation justifying approximately \$500,000 of other audit questioned grantee expenses.

---

<sup>1</sup> These audit reports included: Union Sarah Economic Development Corporation (CIN: A-07-91-00413), Community Services Programs of West Alabama, Inc. (CIN: A-04-89-03501), and Centro Campesino Farmworkers Center, Inc. (CIN: A-04-91-00020). The findings, recommendations and resulting actions are discussed in the Results section of the report.

We are recommending that the ACF:

- Track implementation of recommendations made to grantees and follow-up with grantees to ensure actions taken were effective.
- Prepare appropriate Office of Inspector General (OIG) clearance documents (OCD) for those audits that still require them.
- Send standardized demand letters that contain provisions for appeal and specify interest rates for unpaid balances and provide 30-day follow-up until collections are complete.
- Close out grants in a timely accurate manner.

In responding (Attachment) to a draft of this report, the ACF accepted the recommendations and agreed to take steps to implement them within the limitations of current staffing resources.

## INTRODUCTION

### Background

The Office of Management and Budget (OMB) Circular A-50 provides guidance for agencies in acting on non-monetary and monetary audit recommendations. The management of the ACF has responsibility for reviewing findings and monitoring and overseeing corrective actions. The ACF, Division of Audit Resolution and Grant Oversight notifies the grantee of the ACF position on audit recommendations, completes the OCD, and, if appropriate, sends a demand letter to the grantee. The ACF's debt collection is handled by the Public Health Service's Health Resources and Services Administration (HRSA). The HRSA records accounts receivable based on OCDs prepared by ACF. With regards to the non-monetary recommendations, the ACF program and grants management staff are responsible for tracking and insuring grantee corrections resolve the cited problems. For audit identified systemic problems, ACF staff are responsible for implementing, or better enforcing procedures that will correct the noted weakness. The OIG has the responsibility to review actions taken on audit recommendations.

### Objectives and Scope

This review was performed in accordance with generally accepted government auditing standards. Our primary objective was to evaluate the oversight afforded by OCS and ACF on actions taken in response to our previous audit

recommendations and determine whether disallowances were being properly handled and collected. The scope of our review included four OCS discretionary grants and the related audit reports that were issued in Fiscal Years (FY) 1989 and 1991. To accomplish the objective, we reviewed the ACF process for tracking the grantee corrective actions. Between April and November 1992, we examined grant documentation, grantee reports, and correspondence at ACF headquarters in Washington, D.C. Our review focused on reports and documents that were submitted subsequent to the original audits. With respect to those items not reviewed, nothing came to our attention to cause us to believe that the items were not in compliance with applicable laws and regulations.

## RESULTS

For the corrective actions we reviewed, we found documentation that indicated grantees had taken actions on some non-monetary/procedural recommendations. However, the ACF's use of a non-standard demand letter, unrecorded receivables, and lack of attention collecting debts resulting from recommended audit disallowances did not fulfill the guidelines in OMB Circular A-50, the Grants Administration Manual or the claims collection regulations specified in 45 Code of Federal Regulations (CFR) Part 30. In our opinion, the OCS did not adequately track implementation of our audit recommendations. Further, as of the close of field work, these grants had not yet been closed, even though the grant periods had expired as much as 2 years ago.

### **Union Sarah Economic Development Corporation (CIN: A-07-91-00413)**

Between September 1985 and July 1989, the Union Sarah Economic Development Corporation (USEDCE) received \$961,000 of OCS discretionary grant funds to create a motel enterprise employing low-income individuals. However, the grantee failed to acquire the motel facility. The Department denied further grant extensions and directed the USEDCE to return the unexpended grant funds on July 7, 1989. Further, our February 26, 1990 management advisory report and August 29, 1991 audit report of the two grants disclosed USEDCE had: (1) lacked documentation for how \$303,959 of Federal funds were used or if the funds were even used for authorized grant purposes, (2) retained \$657,041 of unexpended grant funds after the grant expired, and (3) failed to provide the required cost sharing. The audit report recommended that the USEDCE provide documentation justifying the \$303,959 in questioned costs, and return the \$657,041 of unexpended grant funds.

Our follow-up audit disclosed the USEDCE has not responded to the ACF documentation request to support the expenditure of \$303,959. The ACF used

a non-standard demand letter on January 27, 1992 which directed the grantee to provide documentation within 30 days, or to return the \$303,959 to ACF. Throughout the Department, demand letters are used to officially inform the grantee of the requirements and procedures for returning grant funds, alternatives available to the grantee, and consequences of failing to repay the money within the specified time. The demand letter used in this case did not define grantee appeal rights or specify an interest rate that would be applicable to delays in repaying the debt. The ACF did not follow up in a timely manner after the 30 days. At the time of our follow-up audit there was no record that USEDC had either provided the documentation, appealed the case, or returned the money. Cognizant officials told us they were preparing another letter to the grantee that will meet the requirements of a demand letter.

Also, through the non-standard demand letter, the ACF directed repayment of the \$657,041 of unused funds, however, our review indicates no payment was received from the USEDC. According to ACF's January 27, 1992 letter, the grantee was given 15 days to return the \$657,041 to the Department. The grantee did not return the funds or respond to this letter and the files do not indicate any further action was taken by ACF. The procedural error in not using a standard demand letter has cost the Government the use of this money and continued to cost the taxpayers interest on this money.

Further, we found the HRSA has not recorded in the accounting records nor accrued interest for either of these USEDC disallowances because the ACF has not prepared an OCD.

**Community Services Programs of West Alabama, Inc.**  
**(CIN: A-04-89-03501)**

In FY 1989, we audited an Urban and Rural Community Economic Development program grant of \$250,000 made to Community Services Programs of West Alabama, Inc. (CSP). The grant objective was to create a doughnut shop franchise in the Tuscaloosa, Alabama area that would employ low-income individuals. The CSP had set up a for-profit corporation called the Seventeenth Street Inc. (SSI) which issued equity stock to CSP. The CSP had: (1) expended funds amounting to \$66,360 without prior approval by the OCS program office; (2) located their enterprise in a non-distressed area of Birmingham; and (3) completed no audit of its wholly owned subsidiary, SSI, and as a result expended \$183,640 of grant funds that were not audited. The OIG recommended that the OCS: (1) recover unapproved expenditures of \$66,360; (2) review the project to ensure CSP is achieving the objectives; and (3) require the CSP complete an audit of the subsidiary, SSI, which verifies whether the \$183,640 expenditure is allowable.

According to 45 CFR, section 74.102, amendments to the original terms and conditions of the grant must receive prior approval from the program official in writing. However, the ACF did not sustain the audit recommended disallowance of \$66,360 because the OCS had orally informed the grantee that the budget changes were accepted. The grantee had submitted a budget which addressed the use of the \$66,360, but the OCS did not formally make an amended grant award to include the revised budget figures. We found an amended grant award had been added to the file after the original audit that permitted the budget change. An amended OCD has been issued which did not sustain the recommended disallowance.

The ACF reviewed the audit recommendation regarding the accomplishment of the grant objectives and ultimately concluded the grantee was contributing to accomplishing the objectives of the program. The Community Services Block Grant Act, section 681(a)(A), requires grantees to provide employment and business development opportunities for low-income residents of the community. The original audit concluded that the doughnut shop location was not providing business development opportunities in a low-income area. The SSI had located the doughnut shop in an area of Birmingham instead of the economically distressed area of Tuscaloosa described in the grant application. The OCS program officials accepted the grantee's position that the shop was accessible to low-income residents and the grantee is contributing to the program objective of hiring low-income individuals to receive training in the doughnut shop.

The OCS has not reviewed the SSI expenditures of \$183,640 through an on-site visit or by an audit. The CSP submitted a final revised budget modification which showed the transfer of grant funds to SSI for the equity stock. However, at the time of our audit, the CSP has not required SSI, its wholly owned subsidiary, to have an audit performed or included SSI within the scope of the CSP audit. The CSP audit report for the period ending September 30, 1989 contained a note to the financial statements which indicated the CSP Board of Directors had "approved the SSI accounting system, and will determine if an audit is to be performed." However, the CSP auditors did not verify whether the SSI expenditures were accurate and allowable.

**Centro Campesino Farmworkers Center, Inc. (CIN: A-04-91-00020)**

The third audit assessed a \$187,500 migrant and seasonal farmworkers grant made by OCS to the Centro Campesino Farmworkers Center (CCFC) to create housing for low-income migrant and seasonal farmworkers. The audit which was completed in August 1991 found the CCFC had: (1) changed their



distribution of funding without approval; (2) not completed their objective; (3) not disbursed \$20,000 of Federal funds; (4) charged unallowed interest expenses of \$964; (5) charged salaries and fringe benefits based on budget estimates; and (6) submitted no final audit report. The audit recommended that CCFC in the future obtain approval before making project changes, submit a revised plan, obtain OCS approval to extend the grant period, enlist new homeowner candidates, repay the unallowable expenditure of \$964, allocate salaries and fringe benefits based on actual work hours, and submit a final audit report.

We found the OCS grant official attempted to address the audit recommendations. The OCS extended the grant period to allow the grantee to enlist additional eligible participants. Accordingly, the OCD indicated the \$20,000 recovery was not sustained because the no cost extension allowed the grantee to qualify additional individuals. A CCFC progress report indicates that the grantee adopted a waiting list system to maintain qualified individuals for the program. The CCFC asserts the \$20,000 has been assigned to newly qualified individuals.

We were able to determine that all the grant funds have been disbursed and 15 homes are presently assigned to eligible individuals, who hold title to the land. As of the close of our field work, we had limited documentation on the status of the 15 homes because of the August 1992 devastation caused by Hurricane Andrew in this area of Florida. The CCFC asserted that 11 homes were complete with mortgages; 2 additional homes were erected but the participants were waiting to close on the mortgages; and the remaining 2 homes are still under construction with eligible participants contributing "sweat equity" labor. We found no documentation on file that would validate these statements. The CCFC, as part of their response to the audit findings, enclosed a check for \$964 to cover the unallowable interest.

The OCS did not validate that the CCFC had established a time allocation system based on employees' actual activity related to the grant. The OCD indicates the CCFC had given their assurance they would comply with the OMB Circular A-122, which requires personnel activity be reflected using actual time. However, the program and grant files indicated no monitoring or documentation substantiating corrective action.

An audit report has been received by the OCS from CCFC for the December 31, 1990 period, which due to an extension was received timely. We did not find a copy of the report in the Office of Financial Management (OFM) file. The 1990 report indicates the CCFC was having problems meeting their objective of building 15 homes and finalizing mortgages on the homes. The OFM had not reviewed the report.

## **OTHER MATTER**

The OFM has not completed grant close-out reviews of more than 1,000 ACF grant files. The OFM is responsible for reviewing grant files prior to closing the grant to ensure that the grantee and the agency have completed all required actions. According to the 45 CFR part 74.111, a grant close-out review should be completed as promptly as is feasible after expiration or termination of a grant. We found some of these grants had expired more than 2 years ago, but were not closed out. The ACF cannot assure the grant objectives were achieved and the costs were allowable unless a grant close-out review is completed.

## **CONCLUSIONS AND RECOMMENDATIONS**

Our review of OCS actions on the three audit reports indicates the agency carried out insufficient tracking and follow-up on the audit recommendations. The ACF lacks adequate procedures to ensure that grantees took actions on some non-monetary/procedural recommendations. The inadequacies of the follow-up on debt related recommendations does not fulfill guidelines. The ACF used non-standard demand letters for some disallowances and failed to record some disallowances. Further, as of the close of field work, these grants had not yet been closed, even though the grant periods had expired as much as 2 years ago.

We recommend that ACF:

- Track implementation of recommendations made to grantees and follow-up with grantees to ensure actions taken were effective.
- Prepare appropriate OCDs for all audits that still require them.
- Send standardized demand letters that contain provisions for appeal and specify interest rates and provide 30-day follow-up until collections are complete.
- Close out grants in a timely accurate manner.

## **ACF COMMENTS AND OIG RESPONSE**

The ACF agreed (Attachment) with the findings and recommendations of the report and will take steps to implement the recommendations within the limitations of current staffing resources.

Page 8 - Laurence J. Love

Please advise us regarding any further actions taken on our findings and recommendations within the next 60 days. If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Administrations of Children, Family, and Aging Audits.



ADMINISTRATION FOR CHILDREN AND FAMILIES  
Office of the Assistant Secretary, Suite 600  
370 L'Enfant Promenade, S.W.  
Washington, D.C. 20447

MEMORANDUM

DATE: April 1, 1993  
TO: Bryan B. Mitchell  
Principal Deputy Inspector General  
FROM: *Laurence J. Love*  
Laurence J. Love  
Acting Assistant Secretary  
Administration for Children and Families  
SUBJECT: Draft Follow-up Report on Four Grants Awarded  
by the Office of Community Services

As previously stated in the verbal discussions among members of your staff, staff members from the Office of Community Services, and a representative from the Office of Financial Management, the Administration for Children and Families has no basis for disagreement with the subject report. However, it is worth noting that the statement on page four, second paragraph, last sentence is incorrect. The procedural error in not using a standard demand letter did not cost the agency the use of the money since the money could not have been recovered for agency use.

We accept the recommendations and will take steps to implement them within the limitations of current staffing resources.

RECEIVED  
OFFICE OF INSPECTOR  
GENERAL  
1993 APR -1 PM 2:59

IG  
PDIG  
DIG-AS  
DIG-EI  
DIG-OI  
AIG-MP  
OGC/IG  
EX SEC  
DATE SENT 4/1