



November 3, 2010

TO: Yolanda J. Butler, Ph.D.
Acting Director
Office of Community Services
Administration for Children and Families

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at ACTION, Inc. of Delaware and Grant
Counties (A-05-10-00066)

The attached final report provides the results of our limited scope review at ACTION, Inc. of Delaware and Grant Counties. In accordance with the Recovery Act, the Office of Inspector General (OIG) will provide oversight of covered funds to prevent fraud, waste and abuse.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

Please send us your final management decision, including any action plan, as appropriate, within 6 months. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-05-10-00066 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE REVIEW
AT ACTION, INC. OF DELAWARE
AND GRANT COUNTIES**



Daniel R. Levinson
Inspector General

November 2010
A-05-10-00066

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC

at <http://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P. L. 105-285 (the CSBG Act), to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (CAAs) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

Under The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for states to alleviate the causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula.

The Indiana Housing and Community Development Authority (State agency) acts as the lead agency for purposes of carrying out State activities for the CSBG program. The State agency is responsible for approving the State's CAA Recovery Act grant application, and monitoring the CAAs for compliance with program regulations. The State agency was awarded an additional \$14,558,833 in Recovery Act funds for the State of Indiana's CSBG program.

ACTION, Inc. of Delaware and Grant Counties (the Grantee), a private, nonprofit organization, provides services to low income, elderly, and disabled citizens throughout Delaware and Grant counties in Indiana. During fiscal year (FY) 2009, the State agency awarded the Grantee \$502,184 in CSBG grant funds and a Recovery Act grant totaling \$608,236. For FY 2009, the Grantee received total Federal grant awards of \$8,528,996.

OBJECTIVE

Our objective was to assess the Grantee's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG program in accordance with Federal regulations.

SUMMARY OF FINDINGS

Based on our assessment, the Grantee has shown signs of financial distress. If it makes progress in implementing certain financial and programmatic improvement recommendations, it will have the capacity to manage and account for Federal funds and to operate its CSBG program in accordance with Federal regulations. During our review, we noted weaknesses related to: financial viability, safeguarding of Federal funds, the whistleblower process, and inventory of property.

RECOMMENDATION

In determining whether the Grantee is appropriately managing and accounting for the Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing the Grantee's ability to operate a CSBG program in accordance with Federal regulations and work with the State to address noted weaknesses.

GRANTEE COMMENTS

In written comments on our draft report, the grantee stated that it is working to alleviate identified weaknesses in financial viability, the whistleblower process, and inventory of property.

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INTRODUCTION

BACKGROUND

Community Services Block Grant Program

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P. L. 105-285 (the CSBG Act), to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (CAAs) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

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Indiana Housing and Community Development Authority

The Indiana Housing and Community Development Authority (the State agency) acts as the lead agency for purposes of carrying out State activities for the CSBG program. The State agency is responsible for approving the State's CAA Recovery Act grant applications, and monitoring the CAAs for compliance with program regulations. The State agency was awarded with an additional \$14,558,833 in Recovery Act funds for the State of Indiana's CSBG program.

ACTION, Inc. of Delaware and Grant Counties

ACTION, Inc. of Delaware and Grant Counties (the Grantee), a private, nonprofit organization, provides services to low income, elderly, and disabled citizens throughout Delaware and Grant counties, in Indiana. During fiscal year (FY) 2009, the State agency awarded the Grantee \$502,184 in CSBG grant funds and a Recovery Act grant totaling \$608,236. For FY 2009, the Grantee received total Federal grant awards of \$8,528,996.

Requirements for Federal Grantees

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete reporting of grant related financial data, effective control over grant funds, and allocation of costs to all benefitting programs. In addition, grantees must establish written procurement procedures. Grantees are also required to maintain inventory control systems and take periodic physical inventory of grant-related equipment. In addition, pursuant to 45 CFR § 74.27, the allowability of costs incurred by nonprofit organizations is determined in accordance with the

provisions of Office of Management and Budget Circular A-122, *Cost Principles for Nonprofit Organizations*. The CSBG Act establishes the CSBG program and sets the requirements and guidelines for CSBG funds.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess the Grantee's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG program in accordance with Federal regulations.

Scope

We conducted a limited review of the Grantee's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of its internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective. Our review period was January 1, 2006, through June 9, 2010.

We performed our fieldwork at the Grantee's administrative office in Muncie, Indiana, during May 2010.

Methodology

To accomplish our objective, we:

- confirmed that the Grantee is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed the Grantee's application and implementation of the grant awards for the Recovery Act funding;
- reviewed the findings related to the most recent State review;
- reviewed the Grantee's policies and procedures related to the CSBG program;
- reviewed the Grantee's by-laws, minutes from the Board of Director meetings, and organizational chart;
- performed audit steps to assess the adequacy of the Grantee's current financial systems; and
- reviewed the Grantee's audited financial statements and supporting documentation for the period of January 1, 2006, through December 31, 2008.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATION

Based on our assessment, the Grantee has shown signs of financial distress. If it implements certain financial and programmatic improvement recommendations, the Grantee will have the capacity to manage and account for Federal funds and to operate its CSBG program in accordance with Federal regulations. During our review, we noted weaknesses related to: financial viability, safeguarding of Federal funds, the whistleblower process, and inventory of property.

FINANCIAL VIABILITY

Pursuant to 45 CFR § 74.14, grantees should be financially viable. Specifically, this regulation states that the awarding agency may impose additional requirements as needed if an applicant or recipient has a history of poor performance or is not financially stable.

To determine whether the Grantee was financially viable, we performed liquidity and stability analyses of its finances for FYs 2006 through 2008. Our analysis of the Grantee's fiscal status provided negative indicators of financial viability.

The current ratio which gives an indication of the Grantee's ability to meet short-term debt obligations continued to weaken during FYs 2006 through 2008. Current ratios greater than 1 indicate a positive financial position. The current ratio for each of the FY's 2006, 2007, and 2008 was .90, .84, and .88, respectively. Net working capital (current assets-current liabilities) was negative for all 3 years with balances of (\$100,887), (\$111,864), and (\$200,990), respectively. Also, expenditures have exceeded revenues for 2 of 3 FYs with deficits of (\$7,587) in 2006, and (\$111,107) in 2008.

The Grantee had a cash balance of \$394,008 in 2006, but ended the FYs 2007 and 2008 with a bank overdraft of (\$25,254) and (\$80,776), respectively. Current liabilities decreased by 39 percent from FY 2006 to 2007, but then increased by 59 percent from FY 2007 to 2008. The combination of a negative cash balance and a sudden increase in current liabilities indicates a weakening financial position.

We also performed a debt ratio analysis to determine the overall financial risk of the organization. The Grantee's debt ratios for each of the FY's 2006, 2007, and 2008 were 1.11, 1.06, and 1.10, respectively. A debt ratio greater than 1 indicates that a company has more debt than assets.

ADEQUATE SAFEGUARDING OF FEDERAL FUNDS

Pursuant to 45 CFR § 74.22(i)(2), grantees are required to deposit and maintain advances of Federal funds in insured accounts whenever possible. Federal Deposit Insurance Corporation policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to \$250,000 at a single bank.

The Grantee's bank account balances have not exceeded \$250,000; however, with the additional Recovery Act funding, the balances could go above the insured limit.

WHISTLEBLOWER POLICIES AND PROCEDURES

Pursuant to the American Recovery and Reinvestment Act §1553(e), any employer receiving covered funds is required to post notice of the rights and remedies for the protection of whistleblowers. The Grantee did not have a process established and communicated to officers, employees, and others about the rights and remedies provided by the Recovery Act for reporting suspected instances of wrongdoing by the company or its employees.

INVENTORY OF PROPERTY

Pursuant to 45 CFR § 74.34, recipients of HHS funds are required to take a physical inventory of equipment acquired with Federal funds at least once every two years. Contrary to Federal regulations, the Grantee had not taken a physical inventory of equipment since 2007.

STATE AGENCY REVIEW OF ACTION, INC.

The State agency is responsible for distributing and monitoring the use of CSBG Recovery Act funds provided to Indiana CAAs. The State agency has documented numerous concerns about the Grantee's management and financial condition through its correspondence with the organization and performance of the Triennial Comprehensive Administrative Review. The State agency identified the following conditions:

- inadequate accounting system,
- untimely and incorrect accounting records,
- deteriorating financial position, and
- inadequate financial management personnel.

In response to quality concerns on the financial statements issued by the Grantee's external CPA firm, the State agency contracted with a different CPA firm to perform consulting duties on behalf of the State. The consultants examined the Grantee's internal controls over financial reporting for the FY ended December 31, 2008, and noted the following concerns:

- Bank reconciliations and the general ledger did not match the audited December 31, 2008 Statement of Financial Position.
- The Grantee could not provide support for amounts in the December 31, 2008 Statement of Financial Position.
- A search of unrecorded liabilities could not be performed because the Grantee did not have a listing of accounts payable sorted by vendor.

Consistent with the problems noted above, the Grantee was unable to provide any financial statements for the FYs 2009 and 2010.

Due to these and other identified problems, the State agency placed the Grantee on a Quality Improvement Plan (QIP). The QIP required the Grantee to list the measures it would take to correct the program and financial related deficiencies identified by the State agency during the Triennial Comprehensive Administrative Review. The Grantee is also required to make improvements to its financial and accounting systems. These improvements should include the formation of an agency-wide budget, updates to the fiscal policy manual, as well as the creation of timely and accurate financial statements. The QIP is in effect July 6, 2010 through December 6, 2010. During that period, the Grantee will be closely monitored by the State agency. As part of this monitoring, the Grantee will be required to submit monthly financial statements to the State agency, and must demonstrate that accurate bank reconciliations are completed on a monthly basis. The State agency officials will also visit the Grantee in October 2010 to perform an interim review to measure the progress of the required QIP improvements.

RECOMMENDATION

In determining whether the Grantee is appropriately managing and accounting for the Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing the Grantee's ability to operate a CSBG program in accordance with Federal regulations and work with the State to address noted weaknesses.

GRANTEE COMMENTS

In written comments on our draft report, the grantee stated that it is working to alleviate identified weaknesses in financial viability, the whistleblower process, and inventory of property.

APPENDIX

APPENDIX: GRANTEE COMMENTS

**ACTION, Inc. of Delaware & Grant Counties**

Governing Board Officers:
 Dianna Bennington, President
 Tania Said, Vice President
 Tracy Curtis, Treasurer
 Melanie Lanich, Secretary

September 27, 2010

RE: Response to Report Number: A-05-10-00066

Mr. James C. Cox
 Regional Inspector General for Audit Services
 Office of Inspector General
 Office of Audit Services, Region V
 233 North Michigan Avenue
 Suite 1360
 Chicago, IL 60601

Dear Mr. Cox:

This letter is in response to your letter dated September 17th, 2010, concerning report number: A-05-10-00066. Below, please find a comment to each finding and recommendation for said report, including a statement of concurrence or nonconcurrence with each recommendation.

RESPONSE TO FINDINGS:**1) Financial Viability:**

Grantee concurs there are concerns with its financial viability. Grantee and its board of directors have been implementing financial and programmatic improvements to: 1) determine an accurate fiscal status; 2) ensure proper program management; 3) ensure adequate safeguarding of all funding sources; and 4) strengthen overall financial condition.

Grantee is preparing for an upcoming audit by Katz, Sapper & Miller, certified public accounts. Audit results will be used by ACTION fiscal management and its board of directors in further developing and implementing financial and programmatic improvements.

2) Adequate Safeguarding of Federal Funds:

Grantee does not concur that this is an accurate finding. Grantee does deposit and maintain all funds in insured accounts, and not more than \$250,000 at any single bank. Grantee will continue to monitor account balances to insure that all funds remain FDIC insured.

3) Whistleblower Policies and Procedures:

Although the current version of the Grantee's employee handbook does refer to a version of the whistleblower policy, Grantee does concur that a policy in compliance with the Recovery Act does not exist. Grantee has updated its employee handbook and has drafted a formal whistleblower policy which have been presented to its board of directors for review; it is anticipated that there will be board approval for both on or about October 2010.

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4) Inventory of Property:

Grantee does concur that it is in violation of its requirement to take physical inventory of equipment acquired by federal funds at least once every two (2) years. Grantee has begun completion of a current inventory and anticipates completion of said inventory on or about October 2010.

5) State Agency Review of ACTION, Inc.:

Grantee mostly concurs with this finding. Grantee concurs that the State agency has documented numerous concerns about its management and financial condition, which resulted in Grantee being placed on a Quality Improvement Plan (QIP). Although Grantee does concur that internal financial controls are weak, Grantee takes issue with the finding that it chose to not incorporate the adjusting journal entries in the trial balance as noted by its external CPA firm. Grantee was provided with nine (9) pages of adjusting journal entries by its then external CPA firm. ACTION fiscal staff immediately noted that the top of the first of these nine (9) pages did not balance. The external CPA firm was questioned about this and responded by directing ACTION fiscal staff to ignore this error; further, ACTION was never provided with a corrected adjusted journal entry report.¹

Grantee has been working on completion of its QIP, but acknowledges it is behind on meeting plan requirements. Grantee's board of directors has made structural changes to leadership and is working with Grantee fiscal staff on implementing financial improvements. Grantee is preparing for an upcoming external audit that will likely include a forensic review to help determine the origin of its current large deficit. Said audit will be conducted by a new CPA firm hired by Grantee.

Grantee would like to conclude its response to the findings of report number: A-05-10-00066 by stating that it and its board of directors are committed to correcting fiscal and program deficiencies. Grantee acknowledges it has a lot of work to do, but is confident that it will make improvements that will ensure proper fiscal and program management.

Please advise if you have any questions or require additional information concerning this matter. Thank you.

Kind regards,

DIANNA BENNINGTON

Dianna Bennington, Esquire
Chair, ACTION Board of Directors

¹ **Office of Inspector General Note**—The last three sentences in this paragraph are not applicable because the finding or issue referred to by the auditee is not included in this report.