



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

September 1, 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 Community Action of East Central  
Indiana, Inc. (A-05-10-00067)

The attached final report provides the results of our limited scope review at Community Action of East Central Indiana, Inc. 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 60 days. 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](mailto:Lori.Pilcher@oig.hhs.gov). Please refer to report number A-05-10-00067 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE  
REVIEW AT COMMUNITY ACTION  
OF EAST CENTRAL INDIANA, INC.**



Daniel R. Levinson  
Inspector General

September 2010  
A-05-10-00067

# *Office of Inspector General*

<http://oig.hhs.gov>

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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:

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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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# *Notices*

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

Community Action of East Central Indiana, Inc. (CAECI), a private, nonprofit organization, provides services to over 3,000 households throughout Fayette, Union, and Wayne Counties, in Indiana. During fiscal year 2009, IHCDA awarded CAECI \$328,580 in CSBG grant funds and a Recovery Act grant award totaling \$316,282. For fiscal year 2009, CAECI received total Federal grant awards of \$5,185,982.

### **OBJECTIVE**

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

### **SUMMARY OF FINDINGS**

Based on our assessment, CAECI has shown certain trends for net assets and debt that may undermine the grantee's fiscal stability. With the assistance of IHCDA and ACF officials to overcome these deteriorating conditions, CAECI has the ability to manage and account for Federal funds and is capable of operating a CSBG program in accordance with Federal regulations. During our review, we noted weaknesses related to: fiscal status, timely accounting functions, composition of the Board of Directors, a lack of written policies and procedures for

Federal Deposit Insurance Corporation (FDIC) deposit limits, use of consultants, Recovery Act reporting, and security to prevent damage to its property.

## **RECOMMENDATION**

In determining whether CAECI is appropriately managing and accounting for the Recovery Act grant funding, we recommend that the IHCDA and ACF consider the information presented in this report in assessing CAECI's ability to operate a Community Action Agency in accordance with Federal regulations.

## **CAECI COMMENTS**

In written comments on our draft report, CAECI stated that it is working to alleviate identified weaknesses in financial viability, the accounting system, safeguarding Federal funds, composition of the board of directors, policies and procedures, and security.

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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**

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#### **Community Action of East Central Indiana, Inc.**

Community Action of East Central Indiana, Inc. (CAECI), a private, nonprofit organization, provides services to over 3,000 households throughout Fayette, Union, and Wayne Counties, in Indiana. During fiscal year 2009, IHCDA awarded CAECI \$328,580 in CSBG grant funds and a Recovery Act grant award totaling \$316,282. For fiscal year 2009, CAECI received total Federal grant awards of \$5,185,982.

#### **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 CAECI's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG programs in accordance with Federal regulations.

### **Scope**

We conducted a limited review of CAECI's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of CAECI's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was January 1, 2006, through May 31, 2010.

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

### **Methodology**

To accomplish our objective, we:

- confirmed that CAECI is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed CAECI's application and implementation of the grant awards for the Recovery Act funding;
- reviewed the findings related to the most recent State review;
- reviewed CAECI's policies and procedures related to the CSBG program;
- reviewed CAECI's by-laws, minutes from the Board of Director meetings, composition of Board, and organizational chart;
- performed audit steps to assess the adequacy of CAECI's current financial systems; and
- reviewed CAECI'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 objective.

## **FINDINGS AND RECOMMENDATION**

Based on our assessment, CAECI has shown certain trends for net assets and debt that may undermine the grantee's fiscal stability. With the assistance of IHCD and ACF officials to overcome these deteriorating conditions, CAECI has the ability to manage and account for Federal funds and is capable of operating a CSBG program in accordance with Federal regulations. During our review, we noted weaknesses related to: fiscal status, timely accounting functions, composition of the Board of Directors, a lack of written policies and procedures for Federal Deposit Insurance Corporation (FDIC) deposit limits, use of consultants, Recovery Act reporting, and security to prevent damage to its 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 CAECI is financially viable, we performed liquidity and stability analyses of CAECI's finances for fiscal years (FY) 2006 through 2008. Our analysis of CAECI's fiscal status provided negative indicators of financial viability.

The current ratio which gives an indication of CAECI's ability to meet short-term debt obligations has continued to weaken for FYs 2006 through 2008. Current ratios greater than 1 indicate a positive financial position. The current ratio for each of the three FYs was 1.00, .92, and .78, respectively. Net working capital (current assets-current liabilities) was negative for all three years with balances of (\$232), (\$38,475), and (\$183,478), respectively. Also, expenditures have exceeded revenues for all three FYs with deficits of (\$66,862), (\$59,181), and (\$157,120), respectively.

During FYs 2006 through 2008, CAECI had unrestricted net asset ratios of .07, .05, and .02, respectively. This trend indicates that CAECI had inadequate reserves to meet temporary cash shortages, emergencies, or future deficits.

CAECI's cash balance decreased 33 percent from 2007 to 2008, while during the same time period, accounts payable increased 78 percent. The combination of a decrease in available cash and an increase in accounts payables indicates a weakening financial position.

We also performed a debt ratio analysis to determine the overall financial risk of the organization. CAECI had debt ratios of .74, .79, and .93. A debt ratio greater than 1 indicates that a company has more debt than assets. CAECI's debt ratio is close to reaching this point.

## **ACCOUNTING SYSTEM**

Pursuant to 45 CFR § 74.21(b)(3), grantees must provide effective control over and accountability of all funds, property, and other assets to adequately safeguard all assets. Pursuant to 45 CFR § 74.21, grantees must maintain financial systems that provide for accurate and complete reporting of grant-related financial data.

CAECI did not promptly record financial transactions. For example, \$2,444,337 in expenses were posted for 2010, but not \$2,758,515 in revenues. Bank reconciliations were not completed on a timely basis from July 2008 through May 2010. The July 2008 bank reconciliation was performed during our audit. However, no other bank reconciliations had been performed.

Account balances on the audited financial statements could not be matched with the account balances in CAECI's accounting system. CAECI was unable to provide detail to the financial statement balances of 2008. The fiscal officer believed this was due to accounting adjustments that were not entered into the financial system. Financial statements for 2009 and monthly statements for 2010 had not been completed.

## **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 (FDIC) policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to \$250,000 at a single bank.

CAECI's bank account balances have not exceeded \$250,000; however, with the additional Recovery Act funding, the balances could go above the insured limit. CAECI did not have effective internal controls over account balance limits to adequately safeguard deposits.

## **COMPOSITION OF THE BOARD OF DIRECTORS**

Section 676B of the CSBG Act requires that all CSBG agencies administer the CSBG program through a tripartite board that fully participates in the development, planning, implementation, and evaluation of the programs to serve low-income communities. The board should be composed of one-third elected public officials, one-third representatives of the beneficiaries in areas served by CSBG, and one-third members of business, industry, labor, religious, law enforcement, education, or other major groups and interests in the community served.

CAECI's Board of Directors had two of its fifteen Board of Directors' positions vacant. The Board of Directors lacked one elected public official and one community official or member.

## **POLICIES AND PROCEDURES**

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.

CAECI lacked written policies and procedures to address the proper use of consultants or proper reporting. During FY 2009, CAECI reported annual costs of \$21,470 for consultants and was awarded \$1,420,127 in Recovery Act funding.

## **SECURITY**

Pursuant to 45 CFR part 74, grantees of Federal awards shall maintain a control system to insure adequate safeguards to prevent loss, damage, or theft of the equipment.

During our review we noted several instances of vandalism to CAECI's property. Tires on CAECI's vehicles were slashed and the building had been maliciously spray painted with graffiti.

## **RECOMMENDATION**

In determining whether CAECI is appropriately managing and accounting for the Recovery Act grant funding, we recommend that the IHCDA and ACF consider the information presented in this report in assessing CAECI's ability to operate a Community Action Agency in accordance with Federal regulations.

## **CAECI COMMENTS**

In written comments on our draft report, CAECI stated that it is working to alleviate identified weaknesses in financial viability, the accounting system, safeguarding Federal funds, composition of the board of directors, policies and procedures, and security.

# **APPENDIX**

APPENDIX: CAECI COMMENTS

# CAECI Community Action of East Central Indiana, Inc.

July 27, 2010

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

Dear Mr. Cox:

I am responding to Report # A-05-10-00067, Results of Limited Scope Review at Community Action of East Central Indiana, Inc., dated July 21, 2010.

**Financial Viability**

We are in the process of instituting a system of monitoring asset ratios on a quarterly basis. The Board's Finance Committee will review the information and formulate recommendations for corrective action up to and including consultation with an independent adviser.

Cash flow management has been enhanced with the utilization of aged accounts payable reports. Analysis of the claims process indicates use of the federal payment management system by all other funding agencies would be advantageous in that it would eliminate the need for increased cash balances and hold accounts payable liabilities to a minimum, thereby strengthening a potentially weakened financial position.

**Accounting System**

We have hired a new Fiscal Officer and an additional fiscal staff person in order to improve the capacity to effectively control and account for all funds, and complete accurate reports of grant related financial data. The new Fiscal Officer is correcting delinquent accounting records, aggressively reconciling bank statements and promptly recording financial transactions.

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2 A North Market Street  
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James C. Cox  
Office of Inspector General

**Adequate Safeguarding of Federal Funds**

Our new Fiscal Officer has been vigilant in complying with the Agency Policies and Procedures regarding the maintenance of account balances within the FDIC deposit limits. His cash management procedures have reduced the incidence of exceeding the account balance limits. In addition, we have contacted our banking institution regarding participation in the FDIC's Transaction Account Guarantee Program and viable alternatives if the program is not extended in 2011 as proposed.

**Composition of the Board of Directors**

Elected officials in the appropriate County will be contacted to appoint a representative to the Board. Efforts are underway to identify a representative from the private sector possessing the required expertise to fill the referenced vacancy.

**Policies and Procedures**

Fiscal Office Procedures, last modified in 2008, state the Fiscal Officer's responsibility to monitor the daily bank balances to maintain compliance with the levels of deposit insurance guaranteed by the Federal Deposit Insurance Corporation. This policy statement will be expanded to include the steps to take in the event corrective action becomes necessary and provide additional steps to specifically address Recovery Act Funds reporting.

**Security**

Facilities most at risk are equipped with alarm systems. Recent losses have prompted us to seek the advice of a security firm to protect external property such as vehicles. Implementation of the recommendation will be dependent upon reasonableness and the burden it may impose on our financial resources.

We hope we have responded adequately to the concerns expressed in your report. We will endeavor to alleviate the weakness you have identified and restore confidence in our ability to operate in accordance with Federal regulations. If there are any questions, please feel free to contact me.

Sincerely,



Lynn Galloway  
Executive Director