



Washington, D.C. 20201

November 29, 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 Greater Indianapolis,
Inc. (A-05-10-00072)

The attached final report provides the results of our limited scope review at Community Action of Greater Indianapolis, 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>.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori Pilcher at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. We look forward to receiving your final management decision within 6 months. Please refer to report number A-05-10-00072 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT COMMUNITY ACTION OF
GREATER INDIANAPOLIS, INC.**



Daniel R. Levinson
Inspector General

November 2010
A-05-10-00072

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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The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

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 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.

Community Action of Greater Indianapolis, Inc. (the Grantee), a private, nonprofit organization, provides services for energy assistance, childcare, family support, education, and training programs to eligible participants. In addition, the Grantee has acted as funding agent for programs which provide legal services, programs through neighborhood centers, Head Start and summer jobs programs. During fiscal year (FY) 2009, the State agency awarded the Grantee \$1,356,921 in CSBG grant funds. Additionally, the Grantee was awarded a Recovery Act grant award totaling \$2,377,250. For FY 2009, the Grantee received total Federal grant awards equaling \$23,558,410.

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's financial viability improved over the time of our audit period. The Grantee has the ability to manage and account for Federal funds and is capable of operating a CSBG program in accordance with Federal regulations. However, during our review we noted weaknesses related to: fiscal status, composition of the Board of Directors,

safeguarding of Federal funds, and a lack of written policies and procedures for Recovery Act reporting and segregation of duties.

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 the CSBG program in accordance with Federal regulations and work with the State to address the noted weaknesses.

GRANTEE COMMENTS

In written comments on our draft report, the Grantee generally concurred with the findings and described actions that it had taken or planned to take to address financial weaknesses. However, the Grantee disagreed that it lacked a written policies and procedures manual to address proper grant reporting. The Grantee said a new version of its manual, last revised in 2000, will likely be submitted to its board by the fourth quarter of 2011. The Grantee's comments are included in their entirety in the Appendix to the report.

OFFICE OF INSPECTOR GENERAL RESPONSE

Although the Grantee's policy manual does have a section which details financial reporting, the policy manual has not been updated since 2000 and did not include policies and procedures that address Recovery Act reporting. We maintain that the Grantee lacked proper grant reporting policies and procedures.

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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.

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.

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.

Community Action of Greater Indianapolis, Inc.

Community Action of Greater Indianapolis, Inc. (the Grantee), a private, nonprofit organization, provides services throughout Boone, Hamilton, Hendricks, and Marion Counties, in Indiana. During fiscal year (FY) 2009, the State agency awarded the Grantee \$1,356,921 in CSBG grant funds. Additionally, the Grantee was awarded a Recovery Act grant award totaling \$2,377,250. For FY 2009, the Grantee received total Federal grant awards equaling \$23,558,410.

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 established 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 30, 2010.

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

Methodology

To accomplish our objective, we:

- confirmed that the Grantee was 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, composition of Board, 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 objective.

FINDINGS AND RECOMMENDATION

Based on our assessment, the Grantee's financial viability improved over the time of our audit period. The Grantee has the ability to manage and account for Federal funds and is capable of operating a CSBG program in accordance with Federal regulations. However, during our review we noted weaknesses related to: fiscal status, composition of the Board of Directors, safeguarding of Federal funds, and a lack of written policies and procedures for Recovery Act reporting and segregation of duties.

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 has both negative and positive indicators, but indicates a general trend toward improvement of financial viability.

During FYs 2006 through 2008, the Grantee had unrestricted net asset ratios of .06, .09, and .08, respectively. This indicates that the Grantee had low reserves to meet temporary cash shortages, emergencies, or future deficits. The savings indicator ratio for the Grantee is negative for all three years, (.03), (.01), and (.02) respectively, indicating that the Grantee is using unrestricted net assets to fund operations. We also performed a debt ratio analysis to determine the overall financial risk of the organization. The Grantee had debt ratios for each of the FY's 2006, 2007, and 2008 of .91, .91, and .89, respectively. A debt ratio greater than 1 indicates that a company has more debt than assets. The Grantee's debt ratio is close to reaching this point.

The Grantee has shown improvement with some indicators of fiscal status. The current ratio which gives an indication of the Grantee's ability to meet short-term debt obligations continued to improve 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 .47, .82, and 1.01, respectively. Net working capital (current assets minus current liabilities) has continued to improve with balances of (\$4,854,223), (\$1,237,380), and \$107,067, respectively. Additionally, the change in net assets was positive for 2007 and 2008, with surpluses of \$131,593 and \$312,379, respectively.

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.

The Grantee did not have policies and procedures in place to ensure that bank accounts do not exceed the FDIC limit of \$250,000. The Grantee had one bank account that exceeded the FDIC limit every month from June 2009 through May 2010 with an average balance of \$2,008,051. For the same time period, the Grantee had an additional bank account that exceeded the FDIC limit for three of twelve months with an average balance of \$165,773. The Grantee 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.

The Grantee'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.

The Grantee lacked written policies and procedures to address proper grant reporting. During FY 2009, the Grantee was awarded \$2,377,250 in Recovery Act Funding.

SEGREGATION OF DUTIES

Pursuant to 45 CFR § 74.34(f)(4), grantees of Federal awards shall maintain a control system to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Pursuant to 45 CFR § 74.21(b)(3), grantees of Federal awards shall provide for effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

The Grantee lacked adequate segregation of duties between inventory record keeping and performing physical inventories. The Grantee also lacked segregation of duties to safeguard check writing. The employee responsible for preparing checks also had access to blank checks. Additionally, the Grantee failed to have someone outside the payroll department review and give final approval of the payroll records.

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 the CSBG program in accordance with Federal regulations and work with the State to address the noted weaknesses.

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OFFICE OF INSPECTOR GENERAL RESPONSE

Although the Grantee's policy manual does have a section which details financial reporting, the policy manual has not been updated since 2000 and did not include policies and procedures that address Recovery Act reporting. We maintain that the Grantee lacked proper grant reporting policies and procedures.

APPENDIX

October 27, 2010

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

VIA EMAIL FOLLOWED BY HARD COPY VIA DIRECT MAIL

Dear Mr. Cox:

Enclosed please find the response by Community Action of Greater Indianapolis (CAGI) to your draft report *Results of Limited Scope Review at Community Action of Greater Indianapolis, Inc.* which accompanied your correspondence dated October 19, 2010.

We have provided what we believe to be accurate and adequate responses to the findings in your communication, and we concur with your summation that, based on your assessment, CAGI's "financial viability improved over the time of [y]our audit period. The Grantee has the ability to manage and account for Federal funds and is capable of operating a CSBG program in accordance with Federal regulations."

If you require any additional information or have any questions concerning our responses, please feel free to contact me via telephone or email.

Sincerely,



Edgar N. Tipton, Jr.
Executive Director

Ph: 317-396-1732
Cell: 317-341-4045

enclosure

INDIANAPOLIS 2445 N. Meridian Street, Indianapolis, IN 46208 ph. 317.396.1800 fx. 317.396.1527 KEYSTONE 2626 E 46th Street Indianapolis, IN 46205 ph. 317.524.6950 fx. 317.524.6988
BOONE COUNTY 327 N. Lebanon Street Suite 107 Lebanon, IN 46052 ph. 765.482.7018 fx. 765.482.6602 CHIEF DEVELOPMENT ACADEMY 1005 S. Meridian Street Lebanon, IN 46052 ph. 765.482.0784 fx. 765.482.4108
HAMILTON COUNTY 836 Division Street Noblesville, IN 46060 ph. 317.773.2221 fx. 317.773.1212 HENRICKS COUNTY 72 S. Jefferson Street Danville, IN 46122 ph. 317.745.2642 fx. 317.745.0654

FINANCIAL VIABILITY FINDING

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 has both negative and positive indicators, but indicates a general trend toward improvement of financial viability.

During FYs 2006 through 2008, the Grantee had unrestricted net asset ratios of .06, .09, and .08, respectively. This indicates that the Grantee had low reserves to meet temporary cash shortages, emergencies, or future deficits. The savings indicator ratio for the Grantee is negative for all three years, (.03), (.01), and (.02) respectively, indicating that the Grantee is using unrestricted net assets to fund operations. We also performed a debt ratio analysis to determine the overall financial risk of the organization. The Grantee had debt ratios for each of the FY's 2006, 2007, and 2008 of .91, .91, and .89, respectively. A debt ratio greater than 1 indicates that a company has more debt than assets. The Grantee's debt ratio is close to reaching this point.

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Concur.

CAGI is addressing the low reserves issue by:

- *Seeking an increase in its line of credit commitment from \$150K to \$300K to meet temporary working capital needs*
- *Designing/developing an ongoing fundraising strategy for the agency to obtain additional unrestricted revenue*
- *Implementing an increase in the frequency of claims submissions to reduce cash flow constrictions*

CAGI is addressing the debt ratio concern by limiting the incurrence of additional debt

ADEQUATE SAFEGUARDING OF FEDERAL FUNDS FINDING

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.

The Grantee did not have policies and procedures in place to ensure that bank accounts do not exceed the FDIC limit of \$250,000. The Grantee had one bank account that exceeded the FDIC limit every month from June 2009 through May 2010 with an average balance of \$2,008,051. For the same time period, the Grantee had an additional bank account that exceeded the FDIC limit for three of twelve months with an average balance of \$165,773. The Grantee did not have effective internal controls over account balance limits to adequately safeguard deposits.

Concur.

CAGI is addressing the \$250K FDIC insurance limit issue by:

- *Implementing a procedure to review cash balances and requirements and move funds among financial institutions as necessary to insure 100% coverage of funds by FDIC insurance*
- *The agency will open operating accounts at as many financial institutions as necessary to manage this process; currently CAGI has banking relationships with two separate financial institutions*

COMPOSITION OF THE BOARD OF DIRECTORS FINDING

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.

The Grantee'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.

Concur.

CAGI is addressing the board vacancy issue by:

- *Contacting the office of the Mayor of Indianapolis and seeking the referral of a specific person that the Mayor designates for the open Public Sector position.*
- *CAGI is in the process of carrying out the required "democratic process" with local nonprofit community organizations to fill the open Community Sector position.*

POLICIES AND PROCEDURES FINDING

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.

The Grantee lacked written policies and procedures to address proper grant reporting. During FY 2009, the Grantee was awarded \$2,377,250 in Recovery Act Funding.

Concur in part.

CAGI is addressing the policies and procedures issue by:

- *CAGI's fiscal policy manual was last revised in 2000, but a manual does exist. In large part due to the conversion to a new accounting system and significant changes in the assigned roles of fiscal department staff, fiscal procedures have been in a state of flux. The agency's fiscal policy manual and fiscal procedures manual are currently under review and revision by CAGI's newly-appointed Controller with an expectation for submission to the Board of Directors of the fourth quarter of 2011.*

CAGI represents that it currently possesses and maintains financial systems (Sage MIP Fund Accounting and its present Cost Allocation Plan) which "provide for accurate and complete reporting of grant-related financial data, effective control over grant funds, and allocation of costs to all benefitting programs."

SEGREGATION OF DUTIES FINDING

Pursuant to 45 CFR § 74.34(0(4), grantees of Federal awards shall maintain a control system to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Pursuant to 45 CFR § 74.21(b)(3), grantees of Federal awards shall provide for effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

The Grantee lacked adequate segregation of duties between inventory record keeping and performing physical inventories. The Grantee also lacked segregation of duties to safeguard check writing. The employee responsible for preparing checks also had access to blank checks. Additionally, the Grantee failed to have someone outside the payroll department review and give final approval of the payroll records.

Concur.

CAGI is addressing the blank check access issue by:

- *Requiring all check stock now be maintained in the office of the Controller, which is locked when the Controller is not present. No employee responsible for preparing checks*

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has access to the check stock except through the Controller.

CAGI is addressing the inventory segregation of duties issue by:

- *Implementing a process by which the physical inventory of assets will be performed by a fiscal department employee, while the inventory record-keeping will be performed by the IT staff.*

CAGI is addressing the payroll segregation of duties issue by:

- *Instituting a process in which some payrolls will be reviewed and preauthorized before payment. Currently, the agency reviewed payrolls after the fact on a quarterly basis. This review practice will continue. In addition, preauthorization reviews will be conducted. The number and frequency of both the pre- and post-payroll reviews will be varied as another control. All payroll reviews will be conducted by the Controller.*
- *The agency's newly appointed internal auditor will select a random sample containing both hourly and salaried employees to reconcile their compensation rates back to the data in their personnel files.*