

**Office of Inspector General  
Corporation for National and  
Community Service**

**SUPPLEMENTAL REPORT OF  
CORPORATION GRANTS AWARDED TO  
ATLANTIC HUMAN RESOURCES, INC. (AHR)**

**OIG REPORT NUMBER 13-05B**

Office of Inspector General

Corporation for  
**NATIONAL &  
COMMUNITY  
SERVICE** 

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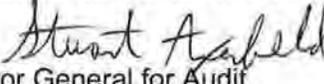
This report was issued to Corporation management on May 9, 2013. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than November 12, 2013, and complete its corrective actions by May 9, 2014. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

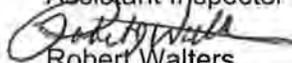


May 9, 2013

TO: Erwin Tan  
Director, Senior Corps

Rocco Gaudio  
Deputy Chief Financial Officer for Grants and FFMC

FROM: Stuart Axenfeld   
Assistant Inspector General for Audit

  
Robert Walters  
Assistant Inspector General for Investigations

SUBJECT: Office of Inspector General (OIG) Final Report 13-05B: *Supplemental Report of Corporation Grants Awarded to Atlantic Human Resources, Inc. (AHR)*

Attached is the OIG Final Report 13-05B: *Supplemental Report of Corporation Grants Awarded to Atlantic Human Resources, Inc. (AHR)*. The Supplemental Report was prepared by the OIG and was not subject to the *Government Auditing Standards*.

Under the Corporation's audit resolution policy, a final management decision on the findings and recommendations in this report is due by November 12, 2013. Notice of final action is due by May 9, 2014.

If you have questions pertaining to this report, please contact Stuart Axenfeld at (202) 606-9360 or [S.Axenfeld@cncsoig.gov](mailto:S.Axenfeld@cncsoig.gov); or Robert Walters at (202) 606-9369 or [R.Walters@cncsoig.gov](mailto:R.Walters@cncsoig.gov).

Attachment

cc: David Rebich, Chief Financial Officer  
Erin McGrath, Director, New Jersey State Program Office  
Rosemary DiRita, Grants Management Specialist, FFMC  
Angela Roberts, Associate Director, Senior Corps  
Claire Moreno, Audit Liaison, Office of Grants Management

**Supplemental Report of Corporation Grants Awarded to  
Atlantic Human Resources, Inc. (AHR)**

Taken together, the audit and investigation of AHR reveal a pattern of misconduct in the management of Federal grant funds and in the grantee's dealings with the Corporation. The results also reflect adversely on the Corporation's grant monitoring.

First, in addition to the other items identified in the audit report, AHR issued 36 worthless checks totaling \$4,516 to approximately 22 FGP volunteers for their stipends between October 2012 and March 2013; checks drawn on AHR's bank account for these payments were dishonored for nonsufficient funds. Although the volunteers subsequently received their payments, OIG investigators recently discovered that AHR continued to issue worthless checks. The FGP grant award includes funding for the specific purpose of paying these modest stipends. In other words, AHR has repeatedly misapplied those funds to other (unidentified) uses,<sup>1</sup> and it continues to do so while this audit/investigation is ongoing and its drawdowns are subject to a manual hold.<sup>2</sup> In so doing, AHR has diverted money from individuals with incomes close to the poverty level, which we find particularly troubling.

Second, AHR has been less than candid with the Corporation and with OIG. The organization did not advise the Corporation that it was not receiving the matching funds on which the grant was conditioned. It did not notify the Corporation or the auditors that it had bounced checks for FGP stipends; absent follow-up work by OIG investigators, OIG would not have known about this. Even then, AHR did not disclose that it was continuing to issue worthless checks to FGP volunteers, initially misleading investigators into believing that all outstanding stipends had been paid. Perpetuation of this practice, despite a manual hold intended to ensure that Federal funds are used only for authorized purposes, reflects a willful violation of Federal requirements and a willingness to exploit economically dependent volunteers. AHR also did not inform either the Corporation or our auditors that, although the organization claimed [duplicate] credit for match contributions to the RSVP grant in the form of travel reimbursements, it failed to reimburse volunteers a total of approximately \$2,500, representing mileage claims for grant years 2009-2010 and 2010-2011. The lack of payment has caused some RSVP sites to stop submitting claims. Finally, with respect to the duplication of items in the indirect and direct charges, AHR has provided inconsistent explanations. The CFO told auditors that the organization did not realize that it was charging twice for the same items, while the CEO told investigators that it believed that such duplication was permissible, based on the lack of criticism in the Single Audits.

Third, due to its limited period and scope, our audit almost certainly did not identify all of AHR's overcharges. Many of the improper practices that produced these overcharges pre-dated the beginning of the audit period. Examples include double-charging of volunteer travel costs (Draft Audit Report at p. 5), direct charges for items included in the indirect cost rate (Draft Audit Report at pp. 6-7) and charging for volunteer meals, whether or not actually provided, based on

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<sup>1</sup> This is not the only occasion on which AHR has misdirected funds from their intended purposes. An A-133 Single Audit Report dated September 30, 2010 found that AHR borrowed more than \$650,000 from Department of Health and Human Services programs to cover unrelated expenses for which it was awaiting funding.

<sup>2</sup> The drawdown requests require AHR to specify the expenses to be covered by the amounts drawn down, and AHR's requests include FGP stipend payments.

estimates (Draft Audit Report at pp. 4-5). Given the substantial sums in question—more than \$260,000 in unsupported meal charges, \$141,000 of direct charges that duplicated indirect costs and nearly \$240,000 of duplicate travel charges—during the three-year period under review, an expanded review of similar transactions for prior periods would likely result in the disallowance of substantial additional costs.

Additional disallowances are probably also warranted with respect to volunteer eligibility. In our audit, nearly half of the sample of 30 volunteer files contained no proof of income-eligibility and 80 percent lacked the legally required background checks. The proportion was even higher in the September 30, 2010, A-133 Audit Report, which found that 15 out of 25 FGP files sampled did not demonstrate eligibility. AHR had a total of 585 FGP volunteers during the audit period and paid stipends totaling approximately \$1.1 million. The high incidence of improper payments discovered in two independent audits suggests that a significant portion of the unaudited payments may also be questionable, to say nothing of the payments in the years preceding the audit period.

The severity, duration and pervasiveness of AHR's mismanagement also call into question the sufficiency of the Corporation's fiscal grant monitoring. Between 2005 and 2011, the AHR grants were rated as "Low" risk eight times and "Medium" risk five times. A site visit in 2008 noted that AHR calculated its meal allowances incorrectly and observed that "a better system is needed to account for in-kind meals," but the Corporation's monitoring results letter to AHR stated that "no follow-up was needed for the matters." The State Office increased the risk level of the FGP grant to "High, and the RSVP grant as "Medium." Even though the Corporation had identified a specific problem in the grant accounting and recognized that at least one of the grants carried "High" risk, it failed to ensure proper corrective action, and the improper charging of in-kind meals continued throughout the audit period. The grant officers did not disallow any in-kind match costs or broaden their inquiry to identify any of the other irregularities that our audit ultimately disclosed.

In contrast to the significant internal control weaknesses and financial mismanagement that existed as of mid-2008, the former State Director endorsed AHR's handling of the RSVP grant in April 2006 following a site visit: "In reviewing the fiscal requirements, I found no discrepancies. All records were being properly maintained." We question the validity of this conclusion, and the thoroughness of the review that produced it, particularly because the problematic accounting practices that resulted in questioned costs appear to have been well established as of mid-2008. It does not appear, for example, that the Corporation ever reviewed the direct charges as compared to the elements included in the indirect cost rate until 2012.

### **Supplemental Recommendations:**

S1. The Corporation should review the costs charged by AHR against the FGP and RSVP grants for the years preceding the audit period to determine whether the irregularities identified in the audit and investigation reports occurred during those years and, if so, the amounts to be disallowed as a result.

### **Corporation Response:**

The Corporation will request additional financial information from AHR and determine the corrective actions during the audit resolution process.

OIG Response:

We will assess the Corporation's implementation of our recommendation during the audit resolution process.

S2. When requiring a manual hold because of indications that a grantee has misdirected Federal funds, the Corporation should consider whether protection of Federal financial interest counsels in favor of requiring the grantee to hold Corporation grant funds in an account separate from funds for unrelated purposes and to make all disbursements related to the grant from that account.

Corporation Response:

The Corporation noted that Federal law and regulations do not require grantees to maintain separate accounts, and that fewer accounts are desirable in order to minimize the burden on grantees with multiple grants and maintain greater efficiency in grantees' cash operations. However, the Corporation noted that it could "suggest" that separate accounts might be advantageous and a best practice in this case and in certain other specified situations.

OIG Response:

When indications that a grantee has misdirected or dissipated Federal funds are so serious that the Corporation requires contemporaneous justification for further drawdowns, mandating separate accounts may also be advisable, in order to maintain a clear distinction between funds available solely for expenses allowable under the grant and those funds available for other purposes. Separate accounts in these circumstances will enable the grantee to more easily account for grant funds and preserve those funds for their intended purpose and will also enable the Corporation to confirm that the funds were in fact used in the manner indicated in the grantee's drawdown requests. In other words, in these limited circumstances, where a grantee has shown by its conduct that it poses a high risk, an account restricted to the Corporation's grant may provide an additional, needed measure of protection.

In April 2013, we recommended the Corporation expand its existing policy, *Grant Fund Holds for Late Reporting*, that authorizes manual holds for late financial/performance reporting to also authorize drawdown restrictions where the Corporation is on notice of possible dissipation, misdirection or fraud that could seriously impinge on a Corporation grant. In such cases, the Corporation needs to protect Federal interests while pursuing its inquiry about the underlying facts. The Corporation now uses manual holds for such purposes on an ad hoc basis, but it has no institutionalized process to instruct grant officers how and when to implement this measure or whether to consider any other safeguards, such as separate accounts under the circumstances identified in the Corporation's response. The Corporation concurred that such a policy is desirable but deferred developing it. This audit illustrates the need for a "Manual Hold and Other Protective Measures" policy. We suggest that such a policy be developed in connection with the AHR resolution process.

S3. The Corporation should perform a comprehensive review of its internal controls over grant monitoring, including a review of its fiscal monitoring tools and manual hold processes. The review should be performed by someone independent of FFMC.

Corporation Response:

The Corporation plans to accelerate the pilot project that is to consider financial analysis in the pre-decision phase of the FY 2013 AmeriCorps State and National grantee selection process. The Corporation also plans to analyze its current manual hold implementation and release processes as part of the internal control improvement initiative.

OIG Response:

We support the plan to incorporate financial analysis in the pre-decision phase of grant-making and believe that an early, rigorous review of financial systems and capabilities will ultimately reduce waste, fraud and abuse. The recommendation in this report, however, pertains to monitoring, a later phase of the grant lifecycle. We are aware that the Corporation is currently developing a plan to improve its internal controls generally, but the draft plan shared with OIG only a few weeks ago contains few measures directed to the critical monitoring function. Likewise, the Corporation's response to this recommendation contains no specifics as to how the Corporation proposes to strengthen grant monitoring, nor does it address our particular recommendation that any review of Senior Corps' financial controls be performed by a party independent of FFMC. We will continue to monitor the Corporation's progress and assess its implementation of our recommendations during the audit resolution process.

\* \* \* \* \*

The Corporation objects in its response that OIG failed to acknowledge its many actions after discovering the problem in 2012. To the contrary, we noted in the audit report that the Corporation requested that our office audit AHR's financial operations and administration of Corporation grants because of adverse findings arising from a 2012 monitoring visit conducted by the New Jersey State Office. We further noted that, following an OIG management alert on November 15, 2012, the Corporation took a variety of actions, including (again) placing AHR's grants on manual holds to restrict the drawdown of additional funds. For the most part, we do not take issue with the Corporation's response after the new State Director recognized the risks posed by the grantee's practices. There is, however, one important exception: Although the Corporation apparently learned about dishonored checks to Senior Corps volunteers beginning in November 2012, it waited until February 2013 to inform OIG, despite the obvious relevance of this repeated misapplication of funds to our ongoing audit. By that time, OIG's independent investigative efforts had uncovered the problem, identified those affected and quantified the amounts in question, which the Corporation had not yet done.

Nevertheless, our critique is not directed to the Corporation's action after discovering AHR's deficiencies in 2012, but rather to the preceding multi-year period (dating back at least to 2008 and probably earlier) in which the Corporation's monitoring efforts failed to detect fundamental weaknesses in internal controls, even when confronted by red flags. More thorough monitoring would have prevented years of unallowable costs and improper payments. The Corporation's reluctance to acknowledge the degree to which its efforts fell short—saying no more than “we could have been even more vigilant in our grant monitoring action and follow-up” prior to 2012—suggests that it does not appreciate the gravity of a years-long monitoring failure that produced questioned costs of \$1.4 million. OIG hopes that all Corporation personnel are as perceptive as the new State Director, who quickly determined that AHR's practices required closer scrutiny. Minimizing the seriousness of the prior failure, however, tends to undercut that high standard.

We look forward to the increased vigilance in grant monitoring promised by the Corporation. OIG is confident that thoughtful investments in better grant monitoring will yield a favorable return for the Corporation and the taxpayers. We hope to hear specific proposals to improve grant monitoring in the near future.

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
RESPONSE TO SUPPLEMENTAL REPORT**



April 24, 2013

TO: Stuart Axenfeld  
Assistant Inspector General for Audit

Robert Walters  
Assistant Inspector General for Investigations

FROM: David Rebich   
Chief Financial Officer

SUBJECT: Corporation for National & Community Service's (CNCS) comments on the Office of Inspector General (OIG) Supplemental Report on *Performance Audit for Grants Awarded to Atlantic Human Resources, Inc. (AHR)*

The Corporation has reviewed the initial draft audit, preliminary response from AHR and the supplemental report for the audit of AHR. As a result of the preliminary findings in the draft audit report requested by CNCS, CNCS instructed AHR to suspend all operations of their Foster Grandparent Program (FGP) and RSVP program immediately as of April 17, 2013, upon receipt of the official letter. We will respond to all findings and recommendations in the draft audit in our management decision after we receive the final report and the auditor's working papers and complete the audit resolution process with AHR.

Concerning the supplemental report, while we recognize it is not an audit and did not follow the collaborative process we are accustomed to in the audit process, we concur with the overall premise that CNCS should review and look for improvements to our current grant management processes (pre-award through close-out). However, we do not believe the supplemental report is an accurate portrayal of the role CNCS' monitoring function played in coming to the decision with this grantee. The supplemental report (internal document) did not recognize any of the successful efforts of the CNCS grant monitoring function, acknowledge the results of the monitoring efforts, or acknowledge the productive working relationship during this engagement. Ensuring the proper management of taxpayer dollars through strong internal controls is an organizational priority. To that end, CNCS is undertaking a comprehensive internal control improvement initiative across the organization to improve our grant management processes, as well as our financial management processes.

In response to CNCS' grant monitoring function in relation to AHR, please consider the following clarification regarding the agency's role. CNCS believes that the monitoring process and working relationship among the New Jersey (NJ) State Director, FFMC Grants Specialist and OIG coordinating staff prior to and during this audit engagement is consistent with existing policies and procedures. The staffs of each organization engaged in open dialogue and information sharing. At the management alert briefing in November 2012, the Inspector General acknowledged this partnership and the execution of the monitoring and referral process. Furthermore, it ultimately resulted in the

outcome expected from CNCS' monitoring function. To that point, CNCS Grant Specialists and/or the NJ State Director took the following actions regarding the monitoring of the AHR grant:

- Identified a pattern of inappropriate management of Federal grant funds through compliance monitoring and subsequent desk review (March/April 2012),
- Issued a monitoring feedback letter requesting supporting and other documentation from AHR (April 9, 2012) **Attachment 1**,
- Reviewed the documentation submitted by AHR and determined that the problems at AHR were systemic, thus requiring an in-depth audit by the IG (May 2012),
- Notified the IG of AHR's financial and programmatic issues and requested a formal [OIG] audit (June 12, 2012) – **Attachment 2**,
- Issued monitoring feedback letter requesting clarification of issues found during CNCS March 12 monitoring visit – **Attachment 3**
- Communicated CNCS' chief concerns regarding AHR to the OIG – **Attachment 4**,
- Placed the RSVP program on manual hold 9/12/2012
- Placed a manual hold on the FGP grant due to concerns with AHR management of funds and lack of adequate documentation (October 2, 2012),
- Issued monitoring feedback letter summarizing and closing out programmatic issues and deferring fiscal issues pending the conclusion of the OIG audit (October 16, 2012) – **Attachment 5**,
- Released the manual hold after AHR provided documentation requested by CNCS (October 26, 2012),
- Identified the original anomaly concerning the volunteer checks not being honored due to insufficient funds (November 2012),
- Notified the sponsor (AHR) immediately,
- Followed up contact with a surprise in-person visit on November 15, 2012 to speak with the AHR Executive Director (ED) and Chief Financial Officer (CFO) who explained that the bounced check was an isolated incident and would not occur in the future,
- Issued a follow-up letter on November 27, 2012 to the AHR ED, CFO, and FGP Project Director, reinforcing the seriousness of the situation and seeking assurances that it was rectified and that any affected grandparents would be compensated for bank fees -- with funds independent of the FGP grant. – **Attachment 6**,
- Followed up with the affected grandparent who verified that she had been made whole,
- Contacted the ED again in early December regarding the issue after receiving a hard copy letter from the affected grandparent, which had been delayed in delivery. The ED of AHR provided additional response in writing – **Attachment 6**,
- Notified the OIG of the bounced check issue,
- Re-established the manual hold on the FGP program at AHR,
- Independent of the OIG's follow-up investigation into the bounced checks, the CSO Director discovered that while the specific instance brought to her attention in November had been rectified, a number of grandparents continued to have trouble cashing checks (April 1, 2013),
- After speaking directly with grandparents and AHR project staff the CSO Director reached out to the OIG investigative team to discuss the ongoing issue,
- The OIG investigative team confirmed that their investigation had also uncovered the check bouncing issues and obtained a full list of affected grandparents from the project staff at AHR which he shared with the CNCS Grants Officer upon request,
- CNCS issued a letter to AHR on April 5, 2013 requesting an immediate response – (Response Received April 8, 2013) – **Attachment 7**, and
- CNCS issued a Summary Suspension on April 16 requiring AHR to suspend all activity as of April 17.

The OIG supplemental report raises concern about CNCS grant monitoring, specifically regarding action and follow-up on identified AHR grant management issues discovered by CNCS prior to our findings in March/April 2012. In addition to the actions that we have undertaken, we also agree that we could have been even more vigilant in our grant monitoring action and follow-up; and if we had been, we may have taken action earlier than we did. We are addressing these areas for improvement in our internal control plan by making strong internal controls more prominent in the culture at CNCS, implementing better risk mitigation assessments prior to grantee award, and increasing our vigilance in our grant monitoring processes. We look forward to working closely with the OIG to leverage resources to ensure proper audits are conducted when potential grantee mismanagement of Federal funds is identified through CNCS grant monitoring processes. We made improvements in our compliance monitoring process when we provided robust project compliance monitoring training for all state office staff in 2009, 2010, and 2011. The training agenda and supplemental materials included case studies, updated tools, and instruction on Generally Accepted Accounting Principles (GAAP) and Internal Controls. This training strengthened our fiscal grant monitoring which is evident in the extensive chain of actions identified above and led the Corporation to request this full OIG audit.

*Below are our responses to the recommendations contained in the Summary Report.*

*S1. The Corporation should review the costs charged by AHR against the FGP and RSVP grants for the years preceding the audit period to determine whether the irregularities identified in the audit and investigation reports occurred during those years and, if so, the amounts to be disallowed as a result.*

**CNCS Response:**

CNCS will request additional financial information from AHR and determine the best course of action regarding the years preceding the audit during audit resolution after we receive the final audit and working papers.

*S2. When requiring a manual hold because of indications that a grantee has misdirected Federal funds, the Corporation should consider whether protection of Federal financial interests counsels in favor of requiring the grantee to hold Corporation grant funds in an account separate from funds for unrelated purposes and to make all disbursements related to the grant from that account.*

**CNCS Response:**

The Code of Federal Regulations (45 CFR 2543.22 Payment) does not require a grantee to keep separate accounts. However, CNCS can suggest separate accounts as advantageous and as a best business practice in this specific case. Business practices in which keeping separate accounts may prove advantageous are: when automatic payments are being drawn from that account; when legal reasons require maintaining a separate account, such as when administering a flexible spending account into which employee deductions are deposited and from which a plan administrator withdraws funds; when keeping a small number of separate accounts will make bank reconciliations easier to perform; and finally, when CNCS has evidence that grantees are not able to pay their members or expending CNCS funds on programs other than CNCS programs. With the exception of these few cases, CNCS will keep the number of accounts to a minimum. CNCS has long held that the intent of the regulation is to streamline and ease the burden of the grantees, reducing the number of bank accounts to a minimum resulting in greater efficiency to the overall cash operation of the

organization. Therefore, CNCS will not direct all grantees to keep separate depository accounts as this would be in violation of our own regulations.

53, *“The Corporation should perform a comprehensive review of its internal controls over grant monitoring, including a review of its fiscal monitoring tools and manual hold processes. The review should be performed by someone independent of FFMC.”*

**CNCS Response:**

Prior to receiving the Supplemental Report, CNCS was implementing an 18-month risk mitigation effort to include financial analysis assessments of the grantee in the pre-decision phase for all CNCS grant-making programs. We have decided to accelerate the effort through a pilot project which will consider financial analysis in the pre-decision phase of the FY 2013 AmeriCorps State and National Grantee selection process. CNCS will assess the results of the pilot prior to finalizing the financial analysis assessment operating procedures moving forward. As part of our ongoing internal control improvement initiative, CNCS will also analyze our current manual hold implementation and release processes.

Given these activities, CNCS believes we have already begun initiating the recommendation that, *“the Corporation should perform a comprehensive review of its internal controls over grant monitoring, including a review of its fiscal monitoring tools and manual hold processes. The review should be performed by someone independent of FFMC.”*

**Attachments**

cc: Robert Velasco, COO  
Rocco Gaudio Deputy CFO, Director FFMC  
Rosemary DiRita, Grants Management Specialist, FFMC  
Erin McGrath, Director, New Jersey State Program Office  
Claire Moreno, Audit Liaison  
Angela Roberts, Associate Director, Senior Corps  
Margaret Rosenberry, Director, Office of Grant Management  
Dr. Erwin Tan, Director, Senior Corps