



December 31, 2009

TO: Carmen R. Nazario
Assistant Secretary for Children and Families

/John Hapchuk/ for
FROM: Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Alert: Community Service Block Grant Recovery Act Funding for Vulnerable and In-Crisis Community Action Agencies (A-01-09-02511)

This memorandum is to alert you that Community Service Block Grant (CSBG) program funds made available under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, may be at risk for fraud, waste, and abuse at certain community action agencies that State agencies have designated as “vulnerable” or “in crisis.” Our November 2009 review of Administration for Children and Families (ACF) records identified 20 community action agencies in 16 States that the States had reported as vulnerable or in crisis as of October 30, 2009. These 20 agencies are scheduled to receive a total of \$44.9 million in Recovery Act funds.

Under Federal law, States have only two options for awarding Recovery Act funds to vulnerable or in-crisis agencies: (1) to provide full funding under the predetermined CSBG formula or (2) to terminate or reduce the agencies’ funding after going through a corrective action process and a hearing on the record. CSBG officials in some States reported that they were unwilling to terminate funding or pursue adverse funding actions because of the time it could take to complete the legal process mandated by the CSBG Act. Although States may initiate corrective action plans with troubled grantees, States do not have the authority to decline to award Recovery Act funds to vulnerable or at-risk grantees without first initiating the lengthy termination process.

Under discretionary grant programs, States do not have the same constraints on terminating or reducing funding. For example, under the Department of Energy’s Weatherization program, States may disqualify vulnerable or in-crisis agencies from receiving Recovery Act funds and redirect the funds to other agencies that can better manage and administer funds. Several State CSBG officials noted that they had withheld Recovery Act funding awarded through the Weatherization program from their vulnerable and in-crisis community action agencies. Yet these same community action agencies are entitled to receive Recovery Act funds under the CSBG program. For example, during our current review of Connecticut’s CSBG program, State officials raised a concern about two in-crisis community action agencies. Although these two agencies were disqualified from receiving Recovery Act funds under the Weatherization

program, they were eligible for a combined total of more than \$2 million in Recovery Act funds under the CSBG program. The State initiated corrective action plans for both of these agencies several years ago and has noted some progress, but State officials remain concerned about providing Recovery Act funds to these agencies until the agencies demonstrate that they can operate responsibly.

We were informed that ACF has focused on educating States regarding potential actions that may be taken with respect to high-risk grantees within current legislative authorities. In addition, on August 18, 2009, ACF issued Information Memorandum, Transmittal No. 112, outlining risk assessment expectations for CSBG-eligible entities and States as part of the CSBG Recovery Act risk assessment process. According to this memorandum, the process is intended to “help guide monitoring and technical assistance efforts.” Under this guidance, State CSBG lead agencies had to provide to ACF all risk assessment assurances and additional comments on any areas of risk by October 30, 2009. An ACF contractor will use the risk assessments and other information to rate the risk of each of the approximately 1,100 community action agencies nationwide and will review agencies identified as having significant risk. The contractor and ACF will use the results of this review to provide technical and training assistance to high-risk agencies on a case-by-case basis. ACF will also use this information to prioritize its onsite reviews of community action agencies. ACF informed us that the number of agencies classified as vulnerable or in crisis may increase as a result of these reviews.

If ACF’s reviews of State risk assessments confirm that States need interim remedies for high-risk grantees, short of termination or reduction of funding, we encourage ACF to consider seeking any legislative change necessary to permit such remedies.

If you have questions concerning this memorandum, please contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov.