



May 9, 2011

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 the CTE, Inc. (A-01-10-02505)

The attached final report provides the results of our limited scope review at CTE, Inc. In accordance with the American Recovery and Reinvestment Act of 2009, the Office of Inspector General (OIG) will provide oversight and audit of programs, grants, and projects funded by the Act.

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 contact me 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-01-10-02505 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT CTE, INC.**



Daniel R. Levinson
Inspector General

May 2011
A-01-10-02505

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
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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 Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. 105-285, authorized the Community Services Block Grant (CSBG) program 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 (CAA) that create, coordinate, and deliver programs and services to low-income Americans. CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, 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 causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula. Under the Recovery Act, CSBG services may be expanded to those who are within 200 percent of the poverty line.

In Connecticut, the Department of Social Services (the State agency) acts as the lead agency for 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 CAAs for compliance with program regulations. The State agency was awarded an additional \$12 million in Recovery Act funds for the State of Connecticut's CSBG program.

CTE, Inc., a nonprofit corporation, offers services to low-income families, individuals, and communities. CTE is funded primarily through Federal, State, and local grants. CTE also receives contributions from private sources to supplement Federal and State funding. CTE is a community action agency that provides services in Stamford, Greenwich, and Darien, Connecticut. During fiscal year 2009, the State agency awarded CTE with \$383,120 in CSBG grant funds and a Recovery Act grant totaling \$604,188. The CSBG Recovery Act grant covers the period from July 2009 through September 2010. For fiscal year 2009, CTE received total Federal grant awards of \$3,554,707.

OBJECTIVE

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

SUMMARY OF FINDINGS

Based on the most recent financial statements available (FY 2009), CTE's financial viability is uncertain. Significant operating deficiencies existed at CTE that impact its ability to manage and account for Federal funds and its capability to carry out the CSBG Recovery Act program in compliance with Federal requirements.

Specifically, CTE did not ensure that:

- its payroll distribution process provided an after-the-fact certification of actual activity performed by salaried employees,
- it only charged allowable costs to the grant,
- it filed timely CSBG Recovery Act quarterly financial reports,
- it properly accounted for equipment purchased with Federal funds,
- it complied with Federal requirements for whistleblower protection, and
- it complied with Federal requirements for bank deposits.

The deficiencies occurred because CTE did not establish adequate controls and procedures. As a result, CSBG Recovery Act funds may be at risk of not being properly accounted for or expended in accordance with Federal requirements.

RECOMMENDATIONS

We recommend ACF work with the State to ensure that CTE establishes adequate controls and procedures to comply with Federal requirements. In addition, we recommend that CTE make financial adjustments or produce adequate documentation for unallowable services, activities, and costs.

CTE, INC.'S COMMENTS

In written comments to our draft report, CTE generally concurred with our recommendations. However, CTE did not concur with a recommendation to refund \$41,414 for unallowable fundraising activities associated with a grant writer's salary. CTE states that the grant writer is not a fundraiser and "was hired under the agency capacity building function of the CSBG/ARRA grant and approved by the [State] Department of Social Services. . . ." CTE's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing CTE's comments, we maintain that CTE is responsible for ensuring that it only claims allowable costs to the CSBG Recovery Act program and, therefore, should not have claimed \$41,414 for a grant writing position under the CSBG Recovery Act. Pursuant to 2 CFR part 230, Appendix B, part 17, "Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable." The grant writer stated, during a September 22, 2010, interview, that she obtains grants from corporate and family foundations and does not work on government grants. This statement was further supported by a spreadsheet provided by the grant writer that detailed the funding received from various financial institutions and private foundations.

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CTE, INC. COMMENTS

INTRODUCTION

BACKGROUND

Community Service Block Grant

The Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. 105-285, authorized the Community Services Block Grant (CSBG) program to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services (HHS), 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 (CAA) that create, coordinate, and deliver programs and services to low-income Americans. 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 causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula. Under the Recovery Act, CSBG services may be expanded to those who are within 200 percent of the poverty line.

Connecticut Department of Social Services

In Connecticut, the Department of Social Services (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 CAAs for compliance with program regulations. The State agency was awarded with an additional \$12 million in Recovery Act funds for the State of Connecticut's CSBG program.

The State agency contracts with CAAs for CSBG Recovery Act funding. Contracts contain provisions stating that contractors (i.e., CAAs) understand and agree that they shall be liable for any State or Federal audit exceptions and shall return to the State agency all payments to which exception has been taken or which have been disallowed because of such an exception.

CTE, Inc.

CTE, Inc. (CTE), a nonprofit corporation, offers services to low-income families, individuals, and communities. CTE is funded primarily through Federal, State, and local grants. CTE also receives contributions from private sources to supplement Federal and State funding. CTE is a community action agency that provides services in Stamford, Greenwich, and Darien, Connecticut. During fiscal year (FY) 2009, the State agency awarded CTE with \$383,120 in CSBG grant funds and a Recovery Act grant totaling \$604,188. The CSBG Recovery Act grant covers the period from July 2009 through September 2010. For FY 2009, CTE received total Federal grant awards of \$3,554,707.

Federal Requirements

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 (OMB) 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 CTE's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG Recovery Act program in accordance with Federal requirements.

Scope

We conducted a limited review of CTE's financial viability, financial management system, and related policies and procedures. This limited-scope review is part of a series of reviews planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act. Therefore, we did not perform an overall assessment of CTE's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period for the CSBG Recovery Act program was from inception on July 1, 2009, through September 30, 2010.

We performed fieldwork at CTE's facility in Stamford, Connecticut, during September 2010.

Methodology

To accomplish our objective, we:

- confirmed that CTE is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed CTE's application and implementation of Recovery Act grant awards;
- reviewed the most recent findings related to the August 2006 State monitoring review;

- reviewed CTE’s policies and procedures related to the CSBG program;
- reviewed CTE’s by-laws, minutes from board of directors meetings, composition of the board, and organizational chart;
- performed audit steps to assess the adequacy of CTE’s current financial systems;
- reviewed CTE’s audited financial statements and audits conducted pursuant to OMB A-133 for FYs 2007 through 2009;
- performed liquidity and stability analyses of CTE’s finances for FYs 2006 through 2009 to determine whether CTE was financially viable;
- reconciled CTE’s CSBG Recovery Act quarterly expenditure report for the period ended June 30, 2010, to its official accounting records and judgmentally selected line items transactions to determine whether costs claimed were in accordance with Federal requirements and CTE policies and procedures; and
- discussed findings with CTE officials.

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 RECOMMENDATIONS

Based on the most recent financial statements available (FY 2009), CTE’s financial viability is uncertain. Significant operating deficiencies existed at CTE that impact its ability to manage and account for Federal funds and its capability to carry out CSBG Recovery Act programs in compliance with Federal requirements. Specifically, CTE did not ensure that:

- its payroll distribution process provided an after-the-fact certification of actual activity performed by salaried employees,
- it only charged allowable costs to the grant,
- it filed timely CSBG Recovery Act quarterly financial reports,
- it properly accounted for equipment purchased with Federal funds,

- it complied with Federal requirements for whistleblower protection, and
- it complied with Federal requirements for bank deposits.

The deficiencies occurred because CTE did not establish adequate controls and procedures. As a result, CSBG Recovery Act funds may be at risk of not being properly accounted for or expended in accordance with Federal requirements.

FINANCIAL STABILITY

Federal Requirements

Pursuant to 45 CFR § 74.14(a)(2), the HHS awarding agency may impose additional requirements if an applicant or recipient has a history of poor performance, is not financially stable, or has a management system that does not meet the standards in this part.

Poor Financial Stability

Short-Term Liquidity

Financial data indicates that CTE's financial viability is uncertain. An analysis of CTE's audited financial statements from 2008 through 2009 raises questions on the organization's financial solvency. Specifically:

- CTE's current ratio (current assets divided by current liabilities) for FY 2008 was 1.08 and dropped to 0.58 for FY 2009. Generally, an organization is fiscally sound when its current assets are valued higher than its current liabilities.
- CTE's working capital (current assets minus current liabilities) decreased from \$54,381 in FY 2008 to - \$543,263 in FY 2009. Negative net working capital means an organization has poor operating liquidity.

Long-Term Stability

CTE's debt ratio (liabilities/assets) was 0.68 for FY 2008 and 1.34 for FY 2009. The debt ratio shows the proportion of an organization's assets which are financed through debt. If the ratio is less than 0.5, most of the organization's assets are financed through equity. If the ratio is greater than 0.5, most of the organization's assets are financed through debt. An organization with a high debt ratio could be in danger if creditors start to demand repayment of debt as well as become insolvent or bankrupt.

PAYROLL DISTRIBUTION SYSTEM

Federal Requirements

Pursuant to 2 CFR part 230, Appendix B, part 8.m., the distribution of salaries and wages must be supported by personnel activity reports. The activity reports maintained by nonprofit organizations must meet the following standards:

- reflect an after-the-fact distribution of the actual activity of each employee,
- account for the total activity for which each employee is compensated,
- be signed by the employee or by a responsible supervisory official having firsthand knowledge of the activities performed, and
- be prepared at least monthly and coincide with one or more pay period.

In addition, 2 CFR part 230, Appendix B, part 17 states, “Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.”

Inadequate Payroll Distribution Process

CTE did not ensure that its payroll distribution process provided an after-the-fact certification of actual activity performed by salaried employees for the period from July 2009 through September 2010. CTE’s director of finance confirmed that CTE charged \$281,389 in salaries and fringe benefits to the CSBG Recovery Act program using a predetermined, monthly allocation rate based on budgeted amounts and not employees’ actual time and effort.

Specifically:

- CTE claimed \$239,975 to the CSBG Recovery Act program that it did not supported with actual time and effort reports; rather CTE used predetermined allocations based on budgeted amounts. For example, our review of 11 employee timesheets for 3 pay periods did not reconcile with the amount charged to the Recovery Act program because budgeted amounts were used to claim costs.
- CTE charged \$41,414 to the CSBG Recovery Act program for a grant writer’s salary and fringe benefits, but our analysis of the grant writer’s duties found that her activities primarily consisted of fundraising, which is an unallowable cost under Federal requirements.

CTE did not have procedures to ensure that its payroll distributions process (1) reflects actual work performed by staff at least on a monthly basis and (2) identifies and segregates unallowable activity. As a result, we had no assurance that CTE properly charged all or part of \$281,389 to the Federal government.

FINANCIAL REPORTING

Federal Requirements

The American Recovery and Reinvestment Act of 2009 section 1512(c) states, “Not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency.”

Quarterly Financial Reports Not Filed Timely

CTE did not submit timely financial expenditure reports for all four quarters we reviewed. Specifically, CTE submitted reports between 13 and 116 days late for the quarters ended September 30, 2009; December 31, 2009; March 31, 2010; and June 30, 2010. CTE did not have policies and procedures in place to address Recovery Act reporting requirements.

PROPERTY MANAGEMENT

Federal Requirements

Pursuant to 45 CFR § 74.34(f), recipients are required to maintain an accurate property management system to account for equipment acquired with Federal funds and federally owned equipment.

In addition, pursuant to 45 CFR § 74.34(f)(3), a recipient shall take a physical inventory of equipment and reconcile the inventory with equipment records at least once every 2 years.

Inadequate Property Management

CTE did not properly account for \$13,175 worth of equipment purchased with Recovery Act funds. In addition, CTE did not conduct a physical equipment inventory at least every 2 years to ensure the accuracy of its equipment records. For example, CTE did not track in its inventory equipment such as an air conditioner and a passenger van that it purchased with Recovery Act funds. Rather, CTE provided us with an inventory of its computers as support for its entire inventory, which only identified some of the computers maintained at CTE. The inventory records did not contain required information about (1) the source and whether title vests in the applicant or the Federal government; (2) the correct location, use, and condition of the property; (3) ultimate disposition data; (4) acquisition date (or date received, if the equipment was furnished by the Federal Government); and (5) how one can calculate the percentage of HHS’s share in the cost of the equipment as required.

CTE did not conduct physical inventories or have adequate property management policies and procedures to identify and account for all federally owned property. As a result, computers and other equipment purchased under the CSBG Recovery Act program may be at risk for unauthorized use or may be lost or stolen.

OVERSTATED DIRECT COSTS

Federal Requirements

Pursuant to 2 CFR part 230, Appendix B, § 12.c.(1), donated goods, including donated space, may be furnished to a nonprofit organization, but the value of the goods and space is not reimbursable either as a direct or indirect cost.

Donated Space

CTE charged occupancy costs of \$12,482 to the CSBG Recovery Act program for donated space. However, CTE leases a building from the city of Stamford for \$1 per year. As a result, CTE charged \$12,481 (\$12,482 - \$1) in unallowable rent expense to the Recovery Act program. This deficiency occurred because CTE was unaware that Federal regulations disallow reimbursement for donated space.

BANK DEPOSITS

Federal Requirements

Pursuant to 45 CFR § 74.22(k), “Recipients shall maintain advances of Federal funds in interest bearing accounts.”

Noninterest Bearing Accounts

CTE did not maintain advances of Federal funds in interest bearing accounts. As of June 30, 2010, CTE’s deposits in noninterest bearing accounts at one bank exceeded \$496,000. CTE does not have procedures to ensure that it maintains advances of Federal funds in interest bearing accounts as required by Federal regulation. As a result, significant amounts of interest income may not have been realized.

WHISTLEBLOWER PROTECTION

Federal Requirements

Pursuant to Section 1553(a) of the Recovery Act (whistleblowers policy), an employee of any non-Federal employer receiving covered funds may not be discharged, demoted, or otherwise discriminated against as a reprisal for disclosing, including a disclosure made in the ordinary course of an employee’s duties, to the board, an inspector general, the Comptroller General, a member of Congress, a State or Federal regulatory or law enforcement agency, or a person with supervisory authority over the employee. In addition, section (e), *Requirement to Post Notice of Rights and Remedies*, provides that any employer receiving covered funds shall post notice of the rights and remedies provided under this section.

Lack of Policies and Procedures for Whistleblower Protection

CTE has not established a policy on whistleblower protection as required by Federal regulations and the State agency's contract provisions.

RECOMMENDATIONS

We recommend ACF work with the State to ensure that CTE:

- provide justification for all or part of \$239,975 identified in this report to support actual time and effort for salaries and fringe benefits charged to the CSBG Recovery Act program or make a financial adjustment;
- establish procedures to ensure that its payroll distributions process reflects actual work performed by staff;
- refund \$41,414 identified in this report as costs for unallowable fundraising activities;
- establish procedures to identify and segregate fundraising activity;
- establish procedures to ensure that quarterly expenditure reports are filed timely;
- establish adequate property management procedures to conduct inventories as required and to identify and account for all federally owned property;
- refund \$12,481 identified in this report as overstated occupancy costs;
- establish and implement adequate controls to ensure that only allowable costs are charged to the CSBG Recovery Act program;
- establish procedures to ensure that Federal funds are maintained in interest bearing accounts; and
- establish and disseminate official whistleblower policies and procedures.

CTE, INC.'S COMMENTS

In written comments to our draft report, CTE generally concurred with our recommendations. However, CTE did not concur with a recommendation to refund \$41,414 for unallowable fundraising activities associated with a grant writer's salary. CTE states that the grant writer is not a fundraiser and "was hired under the agency capacity building function of the CSBG/ARRA grant and approved by the [State] Department of Social Services. . . . Our grant writer's duties are to research and write/submit grant proposals to various corporations and foundations seeking funds to help decrease our dependence on government funding." CTE's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing CTE's comments, we maintain that CTE is responsible for ensuring that it only claims allowable costs to the CSBG Recovery Act program and, therefore, should not have claimed \$41,414 for a grant writing position under the CSBG Recovery Act. Pursuant to 2 CFR part 230, Appendix B, part 17, "Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable." The grant writer stated, during a September 22, 2010, interview, that she obtains grants from corporate and family foundations and does not work on government grants. This statement was further supported by a spreadsheet provided by the grant writer that detailed the funding received from various financial institutions and private foundations.

APPENDIX



April 4, 2011

Report Number A-01-10-02505

CTE, Inc.
34 Woodland Avenue
Stamford, Ct 06902

E. Phillip McKain
President and CEO

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(203) 352-2972

The Community
Action Agency for
The Greater
Stamford Area
Since 1965.

CTE is a
501 (C) (3)
tax exempt
organization

Mr. George Nedder
Audit Manager
Office of Audit Services, Region 1
John F. Kennedy Federal Building
Room 2425
Boston, MA 02203

Dear Mr. Nedder:

Enclosed is CTE Inc's response to the U. S. Department of Health & Human Services, Office of Inspector General (OIG) report entitled *Results of Limited Scope Review at CTE, Inc.* We acknowledge that the draft report is subject to further review and revision and will safeguard it against unauthorized use.

We have addressed each recommendation in the report and understand that our written comments will be summarized in the body of your final report and included as an appendix. A paper copy of our comments is being mailed to the address provided.

If you have any questions or comments regarding our responses, please do not hesitate to call me, or contact Felix Talamo, VP of Finance & CFO, at (203) 352-4849 or through email at ftalamo@ctecap.org.

Sincerely,

E. Phillip McKain
President & CEO

Financial Stability

CTE management implemented cost reduction strategies in 2010 and along with a successful 45th Anniversary fundraising event during the last month of our fiscal year netting over \$100,000, enabled CTE to achieve an increase in net assets of \$257K for the year ended September 30, 2010. This resulted in the improvement of certain key financial measurements over the prior year.

Current ratio improved to 0.64 from 0.58

Working capital improved by \$147K

Debt ratio improved to 1.11 from 1.34

While CTE has additional work to do to improve its financial condition, management believes that through cautious budgeting, cost containment and an more aggressive effort in procuring grants and funds from the private sector, it will continue the movement to financial stability.

Payroll distribution process

CTE concurs with the finding

Cause - CTE operates various separate components - Viewpoint Recovery, Alternative to Incarceration, etc. All employees except for Administrative and Maintenance personnel work exclusively for programs in their component. Many of the components are funded by one program. For example 21% of our average work force for last year was funded 100% by our Alternative to Incarceration program. Another 19% were funded 100% by our View point Recovery Program. A few components, primarily Family Services & Workforce Development are funded by a myriad of government and private grants to provide services, but even in these components most employees are dedicated primarily to the work required by 1 or 2 grants. CTE staffing is based on the amount of funding it receives and the required work to be performed and thus used allocations based on budgeted amounts. Timesheets were used to verify & track hours worked, and vacation and sick time taken. Due to limited Finance dept. resources, the budget method was the most cost effective means of entering payroll costs to insure timely information for reporting purposes However, given the fact that this does not conform to federal requirements, CTE will endeavor to immediately transition to actual timesheet hours input and will instruct its staff as to the proper coding to be entered when working on a particular grant.

Refund for unallowable fundraising activities

The report states that a review of the grant writer's duties found that her activities primarily consisted of fundraising.

CTE does not concur with this finding.

Our Grant writer is not a fundraiser. She was hired under the agency capacity building function of the CSBG/ARRA grant and approved by the state Dept of Social Services, the cognizant agency for CSBG/ARRA funds. Her duties were/are to pursue grants to build our agency's capacity to support our programs including those supported by CSBG/AARA. CTE has separate committees working on fundraisers. Our only material fundraising event (our 45th anniversary event) for FY 2010 was chaired by a committee of board members, employees & volunteers, and a large part of the work was performed by a separately contracted event planner. Our grant writer's duties are to research and write/submit grant proposals to various corporations and foundations seeking funds to help decrease our dependence on government funding. She was successful in getting multiple grants from financial institutions to help fund our Wealth and Asset building component as well as many corporate & foundation grants to fund our various Education and Youth programs. All fundraising revenue and expenses related to our 45th anniversary fundraising event were segregated in separate P & L accounts.

Financial reporting

CTE concurs with the finding.

CTE was using guidelines for state grants for reporting cost - 30 days after the end of each quarter and 60 days for the final report. It will now endeavor to make sure all reports are filed on a timely basis as is required by each grant.

Property management

CTE concurs with the finding.

Depreciation and fixed assets schedules were maintained by our outside auditors Blum Shapiro. CTE will work with them to update the schedules, conduct a physical inventory and identify and account for all federally owned property at the earliest possible time.

Overstated/Allowable Direct Cost

Concur in part with explanation.

CTE charged rent expense to the program as a catchall for all facilities expenses. An analysis done for our auditors during our year end review, showed that all CTE facilities related expenses - maintenance, utilities, cleaning supplies etc. exceeded the amount of charges allocated to grants (including CSBG/ARRA) for rent expense and related facilities expenses. Thus the allowable direct cost was not overstated. To avoid any confusion and misunderstanding, going forward CTE will budget and report all facilities related expenses in the proper category.

Bank Deposits

CTE concurs - request additional guidance

While CTE does not maintain balances in interest bearing accounts. It does have agreements with the Banks where it maintains its operating accounts to offset the monthly account expenses incurred with compensating balances. Given the current extremely low interest rates, the cost for maintaining the additional accounts and the amount and expected short term duration of investable cash, CTE believes our current arrangement provides us with the most cost effective use of the cash. If however this is not acceptable, CTE will arrange to open the required accounts with the realization that it will result in net increased costs.

Whistleblower policy

CTE concurs

CTE's Human resources department is in the process of developing and implementing a Whistleblower policy and expect to have a final draft by 5/31/2011. Our intent is to implement a policy that will embrace all the guidelines published in the Whistleblower Protection Act. This policy will make certain that any employee who discloses evidence of illegal or improper activities will be protected in all aspects of CTE's Business operations and personnel actions.



E. Phillip McKain
President & CEO