

State of New Jersey
Office of the Inspector General

Mary Jane Cooper, Inspector General



**Supplemental Report: Division of Addiction
Services**

**Grant Compliance
and Performance Review**

**Associated Treatment Providers Management
Services Network, Inc. (ATP-MSN)**

February 28, 2007



State of New Jersey

OFFICE OF THE INSPECTOR GENERAL

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JON S. CORZINE
Governor

MARY JANE COOPER
Inspector General

February 28, 2007

Delivered by Hand

Honorable Jon S. Corzine
Governor, State of New Jersey
State House
P.O. Box 001
Trenton, NJ 08625

Re: Supplemental Report – Division of Addiction Services

Dear Governor Corzine:

Enclosed is a report supplementing the Office of Inspector General's (OIG) November 20, 2006 report regarding the Division of Addiction Services (DAS) in the Department of Human Services (DHS). Because of an initial finding that former DAS Assistant Commissioner Carolann Kane-Cavaiola had provided unwarranted benefits to ATP (a trade and lobbying group representing some New Jersey addiction treatment providers) and its alter ego ATP-MSN (an entity created and structured by ATP to be eligible to receive DAS funds), OIG and DHS joined together to conduct an unprecedented line item review of the grantee's use of DAS funds. This review required recreation of the grantee's financial records, many of which were unavailable, and revealed almost to the penny how the grantee used DAS funds. This supplemental report is the result of that review.

The review resulted in a recommendation that, at a minimum, DHS seek the immediate return of \$1,766,115 of misused or unspent grant funds provided to ATP-MSN between 2001 and early 2006. OIG further recommended that DHS assess whether any value was obtained in exchange for an additional \$4,442,967 of grant funds provided to ATP-MSN during that period or whether those funds should also be returned to the grantor. In addition, as a result of evidence uncovered during OIG's investigation, ATP-MSN's 2006 grant was terminated early, and \$2,380,980 in 2006 grant funds were not provided to ATP-MSN and were thus rescued from potential misuse by the grantee.

The line item review exposed with particularity the massive degradation of DAS internal controls that occurred during Kane-Cavaola's tenure at DAS. For that reason, OIG has recommended several changes to rebuild and revitalize the internal controls intended to protect DAS funds. I have had several meetings with the new DHS and DAS administrations about the findings and recommendations, and they are aggressively implementing OIG's recommendations.

OIG has referred its investigative findings to the Division of Criminal Justice (DCJ) for its determination of whether any of the conduct described in our earlier report amounts to criminal conduct. This supplemental report will also be referred to DCJ. OIG is also referring the findings to the Department of Labor and Workforce Development and the Department of Treasury, Division of Taxation, to determine whether there have been violations of wage and hour or tax reporting regulations, respectively.

As required by statute, a copy of the supplemental report has been sent to Senate President Richard J. Codey, Assembly Speaker Joseph J. Roberts, Acting DHS Commissioner Jennifer Velez, and Acting DAS Director Raquel Jeffers.

Of course, I am available to discuss this report or other matters with you at any time.

Very truly yours,



Mary Jane Cooper
Inspector General of New Jersey

Enclosure

c: Senate President Richard J. Codey, New Jersey State Senate
Speaker Joseph J. Roberts, New Jersey State Assembly
Kenneth Zimmerman, Chief Counsel to the Governor
Stuart Rabner, Attorney General, Department of Law and Public Safety
Jennifer Velez, Acting Commissioner, Department of Human Services
David Socolow, Commissioner, Department of Labor and Workforce Development
Rita Strmensky, Executive Director, State Ethics Commission
Gregory Paw, Director, Division of Criminal Justice, Department of Law and Public Safety
James Smith, Deputy Commissioner, Department of Human Services
Maureen Adams, Acting Director, Division of Taxation, Department of the Treasury
William Cutti, Director, Office of Auditing, Department of Human Services
Raquel Jeffers, Acting Director, Division of Addiction Services, Department of Human Services

Supplemental Report: Division of Addiction Services

Grant Compliance and Performance Review

Associated Treatment Providers Management Services Network, Inc. (ATP-MSN)

DAS Sub-Grants Issued by the National Council on Alcoholism and Drug Dependence (NCADD):

02-452-ADA-N-0 (July 1, 2001 – June 30, 2002)

03-451-ADA-N-0 (July 1, 2002 – June 30, 2003)

Grants Awarded by DAS:

03-680-ADA-N-0 (April 1, 2003 – March 31, 2004)

04-680-ADA-N-0 (April 1, 2004 – March 31, 2005)

05-680-ADA-N-0 (April 1, 2005 – March 31, 2006)

06-680-ADA-N-0 (April 1, 2006 – March 31, 2007)

(Termination effective June 12, 2006)

**State of New Jersey
Office of the Inspector General**

**Supplemental Report: Division of Addiction Services
Grant Compliance and Performance Review**

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**State of New Jersey
Office of the Inspector General**

**Associated Treatment Providers Management Services Network, Inc. (ATP-MSN)
Supplemental Report: Division of Addiction Services
Grant Compliance and Performance Review**

INTRODUCTION

On November 20, 2006, the Office of the Inspector General (OIG) issued a report of findings regarding conduct of Carolann Kane-Cavaiola during her tenure as Assistant Commissioner of the Division of Addiction Services (DAS). During Kane-Cavaiola's tenure, DAS was located first in the Department of Health and Senior Services (DHSS) and then in the Department of Human Services (DHS). The evidence uncovered by OIG's investigation concluded that there was an appearance of a conflict of interest between Kane-Cavaiola and Addiction Treatment Providers of New Jersey, Inc. (ATP), a trade and lobbying group representing New Jersey addiction treatment providers, and the Associated Treatment Providers Management Services Network, Inc. (ATP-MSN), an ATP alter ego eligible to receive DAS funds. OIG also found that Kane-Cavaiola had violated her duty to protect DAS funds by securing unwarranted benefits for ATP and ATP-MSN by awarding grants to ATP-MSN.

Concerns regarding the issuance of the grant awards and possible favoritism in the process prompted the OIG and DHS to conduct a review of the grants awarded to ATP-MSN. This report supplements the November 20, 2006 report. Its purpose is to identify and quantify the misuse of DAS funds by the ATP/ATP-MSN Executive Director, Board members and ATP member representatives; to reveal the breakdown of DAS internal controls carried out under Kane-Cavaiola's leadership; and to make recommendations regarding DAS' recoupment of funds and future DAS conduct regarding grant administration, monitoring and oversight.

SUMMARY OF CONCLUSIONS

Misuse of DAS Funds by ATP/ATP-MSN Representatives

Beginning in 2001, DAS had authorized two sub-grants and awarded four grants (collectively referred to as the grants) totaling \$8,709,659 to ATP-MSN (the grantee). The amount included \$400,000 in sub-grants provided during the administration preceding Kane-Cavaiola's and \$8,309,659 in direct grants awarded during Kane-Cavaiola's tenure and at her direction. Because of OIG's findings, the 2006 ATP-MSN grant was terminated early, and therefore, ATP-MSN received only \$6,328,679 of the grant funds awarded.

As reported herein, OIG/DHS' review was able to document that at least \$990,356 of those grant funds provided to ATP/ATP-MSN were misused by ATP/ATP-MSN representatives -- including Kane-Cavaiola, who knowingly paid ATP expenses with ATP-MSN grant funds while she was joint Treasurer of ATP and ATP-MSN; ATP/ATP-MSN Executive Director James O'Brien, who certified to many incorrect and misleading reports of grant expenditures;

and other ATP member representatives -- from proper grant purposes to personnel expenses or expenditures promoting the agenda of ATP, the parent trade and lobbying group. These expenditures were expressly prohibited by State and Federal grant regulations and cost principles, were clearly not within the parameters of the grants, and should be reimbursed to DAS immediately.

Other grant funds were rescued from likely continued misuse by ATP and ATP-MSN including \$2,380,980 of grant funds awarded under Grant Number 06-680-ADA-N-0 but not provided because OIG's investigation resulted in the grant termination. In addition, rescued grant funds include \$775,759 provided to ATP-MSN under Grant Number 05-680-ADA-N-0 and the sub-grants but not spent by ATP/ATP-MSN. Clearly the funds provided to ATP-MSN and not yet expended should immediately be returned to DAS.

Of the \$4,442,967 remainder of DAS funds provided to ATP-MSN, all are questionable to some degree as explained in this report. DAS is the appropriate entity to determine whether the expenditures served a legitimate grant purpose. Those that did not should immediately be returned to the grantor.

Failure of DAS Internal Controls

DAS has a responsibility to provide adequate monitoring and oversight of grant awards to ensure that State funds are properly expended for the intended purpose and that the grantee is performing responsibly in accordance with the terms and conditions required by the grants. DAS did not provide adequate monitoring and oversight of the grant funds disbursed to ATP-MSN or ensure the satisfactory performance of the grant goals and objectives and proper use of grant funds.

OIG/DHS' review revealed that in order to accomplish the award of undue benefits to ATP and ATP-MSN, Kane-Cavaiola overrode, circumvented and allowed the massive degradation of the internal controls in place intended to protect DAS funds. The normal processes for awarding grants were not followed, there was essentially no programmatic monitoring of the ATP-MSN grant, and there was minimal fiscal monitoring.

Some of the erosion of controls came as a result of changes in DAS' organizational structure at Kane-Cavaiola's direction. Former ATP-MSN officers were appointed by Kane-Cavaiola to high-level administrative positions at DAS. OIG was advised by DAS employees that many other staff changes occurred that promoted the undermining of internal controls and enforced an environment of reduced grant monitoring and lack of accountability. Employees from the former administration were marginalized or let go, and some employees resigned. The staff who remained or who were subsequently hired understood the minimal enforcement that Kane-Cavaiola wanted in her Division. OIG/DHS' investigation, as well as comments from the current DAS administration, reveal that processes for awarding and monitoring grants were not followed, and though ATP-MSN did not maintain required records, DAS staff did not monitor the grant sufficiently to realize many of the problems.

Staff responsibilities for program and fiscal oversight were separated preventing DAS employees from communicating about grant purposes and permissible and reasonable expenditures. The organizational structure contributed to the absence of programmatic

monitoring and the failure of DAS staff to monitor the fiscal performance of the grants in accordance with the applicable State and Federal grant rules and regulations.

ATP/ATP-MSN Board and Representatives Responsibility

The ATP and ATP-MSN Boards of Directors were ultimately responsible for the performance of grant goals and objectives and the proper use of State funds for the purposes approved and designated by the grants. DAS funds were accepted by ATP-MSN representatives with the promise to provide program services in accordance with State and Federal grant laws. That promise included the stipulation that grant funds would be used to perform and provide services designated by the grant and that adequate financial controls and procedures were in place to ensure adequate grant administration.

Based on their conduct, it is reasonable to conclude that the ATP and ATP-MSN Boards of Directors' only interest in ATP-MSN was to use it as a conduit to obtain DAS funds to pay ATP operating and other costs. OIG/DHS' investigation revealed that ATP/ATP-MSN Directors utterly failed to assure that even minimal efforts were taken to attain grant goals; that DAS funds were properly used for grant purposes; and that accurate financial records were maintained. ATP-MSN omitted and misrepresented to DAS significant and critical facts regarding the financial performance of the grants in many certified reports of grant expenditures. Specifically, the grantee overstated grant expenditures and understated program income reported in the required reports of grant expenditures. These misrepresentations resulted in ATP-MSN receiving duplicate reimbursements of its costs, some of which arose from more than one State entity providing grant and contract funds for the same service. The reported grant expenditures were not based on the actual costs reflected in ATP-MSN's books and records. In many instances, reported expenses were not substantiated with supporting documentation.

The OIG/DHS investigation revealed a pattern of continuing disbursements for ATP expenses paid from ATP-MSN bank accounts, with DAS grant funds. OIG/DHS was advised by former ATP/ATP-MSN Executive Director O'Brien that he was aware that ATP-MSN received revenue from other organizations and thus ATP-MSN had received duplicate funding from other sources for the services provided to DAS under the grants but did not report this to DAS. The admissions by O'Brien and Kane-Cavaiola reflect the continuing disregard for grant rules and regulations that led to significant abuse of State funds and support a conclusion that the actions were more than negligent, inadvertent mistakes but were intentional misuse of DAS grant funds.

The then ATP/ATP-MSN Executive Director O'Brien felt comfortable writing to the directors in the fall 2004 that 60% of his work time was spent on ATP matters. The Board was aware that 100% of his salary was paid with DAS funds. O'Brien did not suggest to the Board that something be done to rectify the misuse of grant funds. Instead, he urged them to continue on the same path and cynically advised them that "the worst that could happen" as a result of their continuing conduct was that ATP-MSN would be perceived as doing ATP's work. The Board, having been advised by O'Brien continued paying 100% of his salary with DAS grant funds for time he devoted to ATP matters. Even when, in 2005, ATP/ATP-MSN's consultant advised the Boards that there should be segregation of O'Brien's time and salary to be paid with ATP funds, the ATP/ATP-MSN Boards agreed to pay only 20% of his salary with ATP

funds, rather than the 60% O'Brien previously advised that he spent on ATP activities. This misconduct continued until the OIG investigation.

The ATP and ATP-MSN Boards of Directors bear a significant role in the misuse of grant funds and are responsible because, if not directly involved in the misuse, they condoned, sanctioned, or deliberately turned a blind eye toward it. ATP/ATP-MSN Boards of Directors breached their obligation and duties to the State when they allowed, condoned, and failed to prevent the misuse of DAS grant funds. They disregarded and failed to adhere to State and Federal grant rules and regulations including applicable cost principles, mismanaged and misappropriated grant funds entrusted to them, and repeatedly allowed misrepresentations to be made to DAS regarding the grant performance that was relied on by DAS.

Other DAS Grants

Almost all of the ATP/ATP-MSN Directors and other influential ATP member representatives are executive directors or high level administrators at treatment provider agencies. They are responsible for assuring that DAS grants to their agencies are properly administered. Prior to Kane-Cavaiola's appointment as Assistant Commissioner of DAS in September 2002, ATP Board meeting minutes reveal that directors and ATP representatives were highly critical of the former DAS administration and their enforcement of internal controls intended to protect DAS funds. ATP representatives worked to have Kane-Cavaiola appointed to a position in government where she could influence policies affecting ATP and its members and assure less onerous but more generous treatment to ATP members seeking DAS funds.

Having reached the goal of minimal oversight, ATP/ATP-MSN Board members and representatives demonstrated their unwillingness to self regulate and assure that ATP-MSN was using its DAS funds appropriately. Their failure to manage ATP-MSN properly raises a concern that their conduct carried over to the use of DAS funds in their own agencies and warrants consideration by DAS of appropriate monitoring and oversight required to ensure that State funds are used for proper grant purposes.

Their conduct demonstrates the need to return to strict adherence to DHS and DAS grant rules and regulations, the necessary protections of State funds to prevent fraud, waste and abuse. In order to rectify the damage caused by Kane-Cavaiola, the current DAS administration must ensure that current grant funds are properly distributed and grant program and fiscal compliance efforts include adequate and sufficient monitoring and oversight designed to prevent and detect violations of grant rules and regulations. DAS must consider the current grant statistics (i.e., total number of grants, dollar value of grants, type of and frequency of reporting requirements, ratio of grants to administrators) and determine if current staff workloads need restructuring or the need for an increase in the number and qualifications of grant administration staff to ensure that grant administrators maintain a workload that provides for sufficient monitoring and oversight designed to protect State funds from fraud, waste, and abuse.

OBJECTIVES, SCOPE and METHODOLOGY

Objectives

The primary objectives of the OIG/DHS review were to determine whether the grant expenditures claimed by ATP-MSN were reasonable, allowable and allocable to the grants in accordance with the grant terms and conditions, applicable cost principles, DHSS and DHS grant guidelines, and to determine whether the reported grant performance was accurate and properly supported.¹

The review also included an assessment of the grant administration, monitoring and oversight performed by DAS as it relates to the grant performance reported by ATP-MSN.

Scope

In order to evaluate whether ATP-MSN used DAS grant funds for appropriate and allowable purposes, ATP-MSN was requested to provide OIG/DHS with financial records and supporting documentation for all revenue received and disbursements made during the performance of the grants awarded by DAS. However, ATP-MSN did not provide and apparently did not ever maintain the required supporting records necessary to substantiate the grant expenditures reported to DAS.

Missing Financial Records

During the review, repeated requests and attempts were made to obtain supporting documentation and financial records from ATP-MSN. There are several items that have not been provided including:

- Bank account statements for certain ATP bank accounts
- Miscellaneous cancelled checks and deposit tickets
- Records of employee time, attendance and activities performed
- 2001 ATP and ATP-MSN financial records
- 2001 payroll tax returns
- Payroll registers for 2001, 2002, 2003, 2004
- Miscellaneous vendor invoices
- Vehicle mileage log records
- Miscellaneous Narrative Quarterly Progress Reports
- Year-End Progress Reports
- Year-End Evaluation Reports

¹ State Circular 07-05-OMB titled Grant Agreements – Agency Contracts, establishes the State policy regarding grant agreements and/or agency contracts entered into by State agencies. The circular defines the policy for grant administration including the determination of allowable costs. The State policy incorporates the provision of Federal OMB Cost Principles. Federal OMB Circular A-122 is applicable to Non-Profit Organizations, and is incorporated by specific reference in the DHSS Terms and Conditions for Administration of Grants.

OIG/DHS was advised by ATP-MSN representatives that these records could not be located. Other records furnished were incomplete and/or inadequate including:

- Professional service contracts were not complete. The contracts did not include all pertinent facts, terms and conditions and often lacked signatures. In addition, it appears that the contracts were not always updated for each extension of the period of performance.
- Consultant invoices did not provide sufficient details of the service provided.
- Employee travel and expense reports did not provide supporting documentation for the expenditures including purpose of the trip/meeting and the names and title of all attendees.

OIG/DHS reviewed and considered all information and supporting documentation provided from ATP-MSN in the analysis and determination of allowable grant expenditures. The review of the source documents provided by ATP-MSN and OIG/DHS' reconciliation with the accounting records furnished disclosed that there were incomplete and missing financial documents and incorrect reporting of grant activity. During the review, accountants for ATP-MSN claimed to OIG/DHS that the books and records of ATP-MSN were disorganized and financial records were not adequately maintained and do not properly report the revenue and expenses for the two entities since expenses recorded on the books of ATP-MSN that are allocable to ATP are not properly segregated.

The scope of this review is limited to reviewing ATP-MSN's compliance with grant requirements and performance of the objectives of the grants awarded from DAS. The review did not include an assessment of the validity of the grant programs, a determination of the appropriateness of the amount allotted in the grants for these programs or whether DAS should even be funding the grant programs although these are appropriate questions to be addressed by DAS administrators.

DAS Grant Administration, Monitoring and Oversight

Review of the DAS grant files revealed a lack of documentation to demonstrate that the grant administration staff performed adequate grant administration and monitoring of the grants awarded to ATP-MSN. During the review of ATP-MSN's financial records, OIG/DHS became concerned with the grant administration process of DAS and particularly the lack of monitoring and oversight to detect and prevent the misuse of State funds and ensure timely recovery of those funds determined to be improperly used by grantees. Further inquiries of DAS employees were made to determine the procedures utilized in the grant administration, monitoring and oversight activities related to ATP-MSN. Because of OIG/DHS observations, this report also contains conclusions about DAS grant administration.

Methodology

In the absence of the 2001 official accounting records, OIG/DHS utilized the 2001 source documents provided: including bank statements, cancelled checks and deposit slips, to re-create the 2001 financial transactions. Files, reports and records from ATP-MSN's accounting software for January 2002 through September 2006 were utilized to organize the transactions for each grant. Transactions recorded in the accounting system, with the exception of routine, normally occurring payments such as rent and telephone charges were verified to supporting documentation and evaluated in light of the guidance contained in the grant terms and conditions and cost principles to determine the allowable and allocable grant expenditures.

Standards

To evaluate ATP-MSN's reported grant expenditures and compliance with financial and program requirements, we applied regulations and provisions contained in the DHSS Terms and Conditions for Administration of Grants, DHS Contract Reimbursement Manual, DHS Policy and Information Handbook, and the Federal OMB Circular A-122, Cost Principles for Non-Profit Organizations, which prescribe the principles for determining allowable costs.

Subpart H, Allowable Costs, of the DHSS Terms and Conditions for Administration of Grants specify that allowable grant costs will be determined by the applicable Federal cost principles set forth in OMB Circular A-122. The cost principles clarify specific items of cost and the factors to be considered in determining allowable grant expenditures and state that the expenditures must be necessary, reasonable and allocable to the grant.

OMB Circular A-122 prescribes the factors to be used in the determination of allowable costs for approved grant activities. Allowable costs must meet certain criteria including: be reasonable for the performance of the award, conform to the limitations and exclusions set forth in the cost principles as to types or amount of cost, be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization, be determined in accordance with Generally Accepted Accounting Principles (GAAP), not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or prior period, and be adequately documented.

The cost principles further specify the criteria in determining whether a cost is allocable to the grant. Costs are considered allocable to the grant based on the relative benefits received. A cost is allocable to a grant if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it is incurred specifically for the award, benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, and is necessary to the overall operation of the organization. Any cost allocable to a particular award may not be shifted to other awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award. In addition the cost must be based on: generally accepted sound business practices, arms length bargaining, State and Federal laws and regulations, and terms and conditions of the award.

Grant Violations and Critical Findings Observed

The extensive review and evaluation of the financial records provided by ATP-MSN, grant files of DAS, and interviews with DAS employee disclosed the following findings discussed in detail in the Findings section of this report:

- Improper Use of Grant Funds
- Inadequate DAS Grant Administration
- Failure of DAS to Provide Grant Monitoring and Oversight

Exit Conference with ATP-MSN

Through out the review OIG/DHS review staff had several meetings and conversations with ATP-MSN and their accountants to obtain the facts and documentation related to the financial performance of the grants. All information provided to OIG/DHS was considered in our analysis. The accountants were asked to confirm the results of OIG/DHS' analysis of the data and they were offered the opportunity to provide additional documentation and comments on the conclusions. The final results of the OIG/DHS review were provided to ATP-MSN's accountants in an exit conference. ATP-MSN's accountant provided no additional objective information to alter the conclusions of the review.

**SUMMARY OF GRANT AWARDS, GRANT EXPENDITURES
AND RESULTS OF THE REVIEW**

				<u>Recoverable</u>	<u>Grant Funds</u>	
	<u>Period of</u>	<u>Grant</u>	<u>Grantee's</u>	<u>Misused and</u>	<u>Questionable</u>	
	<u>Performance</u>	<u>Award</u>	<u>Reported</u>	<u>Unspent</u>	<u>Grant Costs</u>	
			<u>Expenditures</u>	<u>Grant Funds</u>	<u>For DAS</u>	<u>Exh.</u>
					<u>Assessment</u>	
<u>Sub-Grants:</u>						
02-452-ADA-N-0	7/01 – 6/02	\$200,000	\$199,984	\$122,278	\$122,372	A
03-451-ADA-N-0	7/02 – 6/03	200,000	199,952	77,079	97,671	B
<u>Grants:</u>						
03-680-ADA-N-0	4/03 – 3/04	293,000	276,179	262,720	13,459	C
04-680-ADA-N-0	4/04 – 3/05	1,093,957	971,781	239,894	731,887	D
05-680-ADA-N-0	4/05 – 3/06	4,174,619	3,398,924	1,129,970	3,044,649	E
06-680-ADA-N-0	4/06 – 6/06 ²	<u>2,748,083³</u>	<u>519,962</u>	<u>(65,826)⁴</u>	<u>432,929</u>	F
TOTAL		<u>\$8,709,659</u>	<u>\$5,566,782</u>	<u>\$1,766,115</u>	<u>\$4,442,967</u>	

The recoverable grant funds represent the expressly prohibited costs as specified in the grant regulations and cost principles; unspent grant funds; duplicate program income; and questionable grant costs. The questionable grant costs require a determination by DAS of whether the expenses served a legitimate grant purpose. Those that did not should be returned to the grantor.

² In accordance with the grant terms and conditions, DAS issued the notice of termination to ATP-MSN in April 2006. The notice stipulates that the grant termination will be effective in 60 days.

³ As a result of the grant termination, advance grant payments from DAS to ATP-MSN were suspended. Of the \$2,748,083 total grant award, only \$367,103 was issued to ATP-MSN.

⁴ The negative adjustment for Grant Number 06-680-ADA-N-0 represents expenditures authorized for the grant that DAS directed ATP-MSN to pay after the grant was terminated and after grant payments were suspended. This amount is recognized in the OIG/DHS review as an offset of the grant funds to be recovered by DAS.

The following schedule provides an overview of the total grants awarded, funds provided by DAS to ATP-MSN, grant expenditures reported by ATP-MSN and the results of OIG/DHS' review. Detailed explanations for the amounts referenced in the schedule are included in the comments for Finding One of this report.

Total Value of Grants Awarded to ATP-MSN			
	Sub-Grant Awards	\$ 400,000	
	Primary Grant Awards	<u>8,309,659</u>	
			<u>\$8,709,659</u>
	Grant Funds Provided to ATP-MSN		<u>\$6,328,679</u>
	ATP-MSN Reported Grant Expenditures		<u>\$5,566,782</u>
Finding One			
Section			
I	Expressly Prohibited Use of Grant Funds		
	Unallowable Costs	\$ 430,916	a
	Non-Grant Salaries and Fringe Benefits	312,702	b
	Unreported Program Income	246,738	c
II	Rescued Grant Funds		
	Unspent Sub-Grant and 2005 Grant Funds	<u>775,759</u>	d
			<u>\$1,766,115</u>
	Other Rescued Grant Funds		
	2006 Grant Funds Awarded but not Provided	<u>\$2,380,980</u>	e
	Total Rescued Funds	<u>\$3,156,739</u>	
III	Other Questionable Grant Costs		
	Barrier Free Funds	\$2,831,853	f
	Other Salaries and Fringe Benefits	827,652	g
	PDI Training Provider	522,268	h
	DAS Consultant	170,112	i
	Conference, Equipment and Other Expenses	<u>91,082</u>	j
			<u>\$4,442,967</u>

FINDING ONE - Improper Use of Grant Funds

State grant funds were mismanaged and misused by ATP/ATP-MSN and not properly monitored by DAS allowing the waste and abuse to go undetected for many years. The review disclosed that ATP-MSN misused grant funds for non-grant purposes, reported expenses related to other sources of income as grant expenses, and failed to report other program income to DAS. The grant funds to be recovered include \$990,356 of grant funds misused by ATP-MSN and the recovery of \$775,759 of grant funds provided in Grant Number 05-680-ADA-N-0 and the sub-grants but not spent prior to the end of the grant period that together total \$1,766,115.

The unspent grant funds were reported in the final report of grant expenditures to DAS in August 2006, nearly three months after the final report was due, many months after the start of the OIG investigation, and after the termination of the follow-on grant. Often ATP-MSN had unused grant funds but this was not discovered until final reports of grant expenditures were prepared months after the grant period of performance had ended. On all prior grants when unspent funds had been recognized, ATP-MSN requested and Kane-Cavaiola allowed budget modifications that increased the current follow-on grant original budget by the amount of the unspent funds from the prior grant. Based on the evidence, it is reasonable to conclude that the unspent grant funds identified under Grant Number 05-680-ADA-N-0 would have been transferred to the new grant and misused in the pattern established by ATP/ATP-MSN during the entire time of grant performance had Grant Number 06-680-ADA-N-0 not been terminated early as a result of evidence uncovered during OIG's investigation..

Approximately \$949,000⁵ of the \$1,766,115 has been recognized by ATP-MSN as a liability due back to DAS. However, to date these funds have not yet been returned.

Detailed explanatory notes to the summary of grant awards, grant expenditures and result of the review on page 10 are presented below.

I. Misused Grant Funds

The \$1,766,115 of grant funds clearly to be recovered includes expenditures reported by ATP-MSN that were determined to be unallowable (including those that were not supported by any documentation) in accordance with the grant regulations and cost principles, unreported income (duplicate funding received for DAS funded projects) and the unspent grant funds provided to ATP-MSN that have not yet been returned to DAS. Some of the expenditures were misrepresented as grant costs by ATP-MSN in documents provided to DAS but were found to be unrelated to ATP-MSN and the grant objectives and incurred for the benefit of ATP and its agenda.

⁵ In a July 26, 2006 letter from ATP-MSN's accountants to DAS, they advised that approximately \$174,000 that they categorized as "refundable excess program revenue" should be returned to DAS. In the final report of grant expenditures for Grant Number 05-680-ADA-N-0 dated August 11, 2006, the final cash balance reports approximately \$775,000 of available grant funds to be refunded to DAS. This report was certified by the accountants for ATP-MSN in August 2006.

a. Unallowable Costs

Unallowable costs of \$430,916 include expenses claimed by ATP-MSN to be associated with the grant but when examined with supporting documentation were found to be unallowable costs as prescribed in the cost principles or not supported by sufficient documentation including:

- facility and office expenses for ATP activities,
- personal use of two leased automobiles (including the lease payments, insurance, gasoline, repairs and maintenance),
- meals and entertainment unrelated to the grant or ATP-MSN activities,
- professional services and consultant costs for services related to expressly prohibited public relations and lobbying activities,
- equipment purchases shipped to the residence of the executive director that were not included in the inventory records of ATP-MSN,
- consultant fees, including some to related parties, not supported by sufficient documentation required by the grant terms and conditions.

Lobbying Consultant

ATP-MSN used grant funds to obtain lobbying services for ATP and its member agencies. Review of the supporting documentation provided from ATP-MSN does not support that the consulting services provided by the lobbying firm are allowable grant expenditures in accordance with the scope of services included in the grant application approved by DAS. Requested copies of contracts, documentation supporting the work performed, and documentation supporting how these services benefited the PDI program were not maintained or provided for all professional service consultants. Language in the consultant contracts demonstrated that services were provided by the lobbying firms that were not allowed by grant regulations as grant expenses. The documentation indicated that the firms' work benefited ATP's agenda.

Related Party Transactions

The review disclosed expenditures reported by ATP-MSN for professional services issued to related parties⁶ in excess of \$100,000 that were charged to the grants. The grantee did not provide sufficient documentation to support the nature and purpose of the costs reported as grant expenditures or whether the transactions are based on arms length bargaining. Without sufficient supporting documentation to substantiate the necessity or allocability of the expense to ATP-MSN or the grants as required by the cost principles, OIG/DHS considers the expenditures reported by ATP-MSN as unallowable.

⁶ Related parties include transactions with individuals or organizations that have an interest in ATP-MSN or ATP either because they or their affiliates are or were former board members or are employed by an agency that is a member of ATP.

Other Unsupported Costs

Supporting documentation for some of the reimbursements made to the Executive Director reported as travel and other miscellaneous reimbursements of business expenses in the accounting records did not include the required details and receipts necessary to determine the nature and purpose of the expense. Because of the significant effort the Executive Director expended on non-grant and non-ATP-MSN activities, OIG/DHS concluded that many of the expenditures reported are not allowable grant expenditures allocable to the grant in accordance with the grant terms and conditions.

b. Non-Grant Salaries and Fringe Benefits

OIG/DHS determined costs of \$312,702 for salaries and associated fringe benefits ATP-MSN paid with DAS grant funds for time the Executive Director and other employees spent on non-grant and non-ATP-MSN activities. Although most employees worked for both ATP and ATP-MSN, no records were kept by ATP-MSN to substantiate the actual time employees' spent performing grant activities. Based on the recommendations in 2005 from accountant/consultants retained by ATP-MSN, the ATP-MSN Board approved the accountants' allocation of costs paid by ATP-MSN for some effort that two employees performed for ATP during the performance of the grants. However, the allocation was inadequate. Excluding the sub-grants and the salary allocation, the entire salary expense was certified by ATP-MSN as grant expenditures although the evidence substantiates that, at least in substantial part, they were not.

Review of the joint ATP and ATP-MSN Board meeting minutes disclosed concerns of some Board members about the appearance of, and separation of, ATP and ATP-MSN. While the concern for separation was raised, minimal effort was implemented to ensure the independence of each entity. There was never proper identification and segregation of revenue, expenditures and effort expended by staff for each role they performed.

Contrary to the Executive Director's assertion to OIG/DHS (and apparently to ATP/ATP-MSN accountants resulting in the inadequate allocation) that only 20% of his time was spent on non-grant activities, he wrote in an addendum to the September 29, 2004 ATP-MSN Board meeting minutes: "I function as ED [Executive Director] for both corporations, and have become the face of the providers. The MSN grant has grown significantly this past year. **The workload remains the same however, with about 60% of my time focused on member issues.** Some of the advocacy for the field (training, improving the workforce) can be part of the MSN grant, but the voice of addictions and the service to members in helping with their problems or advice, and attending meetings for them, are clearly ATPNJ issues. The worst that could happen is someone accuse MSN of doing ATP work." [Emphasis added]

The fact that the then Executive Director O'Brien advised the ATP/ATP-MSN Board of the increase in grant funding and unchanged required work effort, coupled with the concern that ATP-MSN could be accused of doing ATP work, was clearly made known to all then ATP-MSN Board members. The minutes of the meeting were furnished to the then ATP

Board members as well. This is convincing evidence of the ATP/ATP-MSN Board members and influential ATP member representatives' knowledge of and failure to correct the misuse of State grant funds largely used for their benefit. The admissions of the then Executive Director O'Brien in September 2004 and the Board's later actions ignoring the representations made by him demonstrate that the Board, at a minimum, condoned and sanctioned the inappropriate use of grant funds even when concerns regarding ATP-MSN doing work of ATP (and funding ATP) were raised.

Minutes of the February 24, 2005 ATP-MSN Board Meeting reflect that about five months after being warned in writing that DAS funds were being used to pay ATP salaries, the Board discussed the overlap of work between the Executive Director, executive assistant and public relations staff on ATP and ATP-MSN business. It was agreed that ATP-MSN cover 80% of the salary for these three employees. The recommendation was to be forwarded to the ATP Board for discussion. Although the minutes reflect that 20% of time spent by the three employees represent non-grant, non ATP-MSN activities, only allocations for the Executive Director and executive assistant were made. Moreover, the ATP allocation for the Executive Director's salary was 20% not 60% as stated in the addendum to the September 29, 2004 minutes, and the allocation for the executive assistant's salary was only 10% not 20% as stated to the Board. The executive assistant advised OIG/DHS during the review that she did in fact spend at least one day a week or 20% of her time on ATP and non-grant activities. Finally, the books and records have never been adjusted for any allocation of time the public relations employee spent on ATP activities.

Ultimately, the ATP/ATP-MSN Boards approved a salary allocation that was inconsistent with and contradicted the earlier representations the then Executive Director O'Brien communicated in the addendum to the September 2004 meeting minutes. The Board failed to exercise reasonable care in determining an adequate salary allocation by ignoring and/or not reviewing the necessary details to substantiate the Executive Director's assertions and by failing to ensure that the approved salary allocation was consistent with the facts and circumstances previously reported to them.

Because the Executive Director acknowledged to the Board that his workload remains the same and he spends 60% of his time performing non-grant and ATP activities and the lack of supporting documentation to demonstrate otherwise, OIG/DHS has determined that at a minimum 60% of the Executive Director's total reported salary is not an appropriate grant expenditure and is not allowable or allocable to the grants. The minimum unallowable salaries for the executive assistant and public relations employees are 20% of the total reported salaries. In view of the striking lack of performance documentation and O'Brien's statement to the Directors that he could shift "some advocacy for the field" to the grant, DAS should determine whether the remainder of total reported salaries for ATP-MSN staff was for time spent on appropriate grant activities. To the extent that these salaries were not expended for grant related purposes, those salaries should also be categorized as unallowable and the grant funds returned to DAS.

Since employees spend effort on non-grant and ATP activities, OIG has calculated the weighted average salaries for the unallowable ATP activities in order to allocate the proportionate share of the jointly occupied facility and office expense to ATP. The costs

associated with ATP's allocated share of facility and office expense is included in the unallowable costs reported earlier.

c. Unreported Program Income

ATP-MSN failed to properly report and disclose \$246,738 of program income earned and received from other organizations for services rendered by ATP-MSN that are the result of the performance of the grant and fully funded from DAS. This is a direct violation of DHSS and DHS rules and regulations. In the last conversation with the then ATP-MSN Executive Director in November 2006, he acknowledged knowing that ATP-MSN received revenue from other organizations for certain expenditures related to some of the approved grant activities. He further acknowledged that ATP-MSN received full funding for the expenses incurred from DAS for these activities in addition to income received from the other organizations. Some of this income was from another State agency and some was from other DAS grant funds.

II. Rescued Funds

Rescued funds include those grant funds awarded and/or provided to ATP-MSN but recovered from the likely continued misuse by ATP-MSN.

d. 2005 Grant Funds Unspent

Finally, the amount of determined recoverable funds includes \$775,759 that had been provided to ATP-MSN under the 2005 grant and sub-grants⁷ but that had not been spent by the entity as of June 12, 2006, the date on which DAS terminated all but ATP-MSN's Drug Court grant. These must be considered rescued funds since it is reasonable to conclude that ATP-MSN would have continued the well established pattern of misusing grant funds had the grant not been terminated as a result of OIG's management review.

e. 2006 Grant Funds Awarded but not Provided

Although Grant Number 06-680-ADA-N-0 was initially awarded in the amount of \$2,748,083, the grant was terminated in June 2006 because of evidence uncovered in OIG's investigation of actions undertaken by Kane-Cavaola during her administration of DAS. Since only \$367,103 was paid to ATP-MSN prior to the termination, the OIG/DHS investigation prevented the likely continued misuse of DAS grant funds in the amount of \$2,389,980, the difference of the grant award and the amount paid to ATP-MSN.

III. Questionable Grant Costs for DAS Assessment

Our conclusions and determination of unallowable costs do not include an amount attributed to the grantee's failure to satisfactorily perform the program services required by the grant. Our

⁷ \$775,695 was provided to ATP-MSN and not spent under Grant Number 05-680-ADA-N-0 and the other \$64 represents the unspent sub-grant funds that were never returned to the grantee (NCADD) or DAS.

review also does not include possible misuse of ‘sub-grant’ funds ATP-MSN distributed to treatment providers as part of the barrier-free and life safety distributions.

There are several questionable grant expenditures noted during the review that require a determination by DAS of whether the expenses served a legitimate grant purpose including:

		<u>Note</u>
Barrier Free Funds	\$2,831,853	f
Other Salaries and Fringe Benefits	827,652	g
PDI Training Provider	522,268	h
DAS Consultant	170,112	i
Conference, Equipment and Other Expenses	91,082	j

f. Barrier Free Funds

Although these funds were initially designated in the grant awards to ATP-MSN as capital improvements – renovations, the ultimate use of funds by the treatment providers has not been determined. Our investigation found that ATP-MSN kept approximately \$224,000 of the \$2,800,000 in grant funds designated in the 2005 grant for barrier-free and/or life safety projects and distributed nearly 97% of the remaining funds to ATP member treatment providers. ATP-MSN did not implement formal policies and procedures to evaluate project requests. ATP-MSN did not properly distribute and monitor the DAS grant funds awarded to the treatment providers for the barrier-free and life safety projects.

Minimal supporting documentation regarding the construction projects was kept by ATP-MSN and none was provided to DAS to substantiate the work performed. ATP-MSN failed to maintain adequate supporting documentation for the DAS grant funds distributed for barrier-free and life safety projects that would enable a determination of appropriate and legitimate disbursement of State funds. Project files were inadequate and did not include the basic records to substantiate the project selection, award, monitoring and verification of project completion and expenditures made by the sub-grantee. Each financial report prepared by ATP-MSN represented differing grant awards and project details. Information and notes included in the project selection files do not adequately reflect the basis for the quotation selected. In many cases, quotes were rounded up and an additional 10% factor was applied, reportedly to cover potential overruns. As noted in our earlier report, there is evidence that ATP-MSN committed more than the \$2.8 million of grant funds designated for barrier-free and life safety projects in Grant Number 05-680-ADA-N-0 and was going to utilize some of the \$1 million of grant funds designated in the follow-on Grant Number 06-680-ADA-N-0 to cover the deficit.

Refer to our earlier report dated November 20, 2006 for detailed discussion of the circumstances surrounding the barrier-free funds provided in the grant including the \$224,000 designated for ATP-MSN’s reimbursement of its administrative costs and the promise for future funds in the next grant. Details supporting the \$224,000 “grant administration fee” were never provided in the grant budget modification. The Executive Director of ATP-MSN advised that these funds were designated by DAS to provide ATP-MSN the opportunity to take over the PDI program establishing a training center at the

ATP/ATP-MSN office and hiring two trainers. However the details for the “grant administration fee” were not submitted to DAS for approval and were not part of the approved grant program or activities. The evidence reviewed by OIG/DHS disclosed that the actual cost of administering the distribution of the barrier-free funds was no more than \$60,000.

OIG/DHS has not been able to determine that DAS performed appropriate budgetary review and evaluation in the designation of and purpose for the \$224,000 authorized as “grant administration fees” to ATP-MSN. Based on the assertions made to OIG/DHS by the Executive Director regarding the purpose of these funds, OIG/DHS has not been able to determine that DAS performed an adequate review or even considered the specific details and types of costs included in the approved grant funding to prevent duplication of administrative costs. OIG/DHS’ review of the details included in the initial grant application and budget revealed that many of the costs that the Executive Director advised was to be funded from the \$224,000 “grant administration fee”, including salaries for two new trainers, were actually included in the initial approved grant budget. The failure of DAS’ grant administration staff to properly review, evaluate and document the purpose and amount of the “grant administration fee” resulted in DAS’ failure to detect duplicate funding provided to ATP-MSN for expenses already included in the initial grant budget. As a result, these funds were available for inappropriate use by ATP/ATP-MSN.

Although the \$224,000 was never separately identified in the accounting records of ATP-MSN, the recommended recovery is based on evaluation of total expenditures made by ATP-MSN and the OIG/DHS determination of unallowable grant costs based on the grant rules, regulations and cost principles. As stated, the OIG/DHS evaluation determined the expressly unallowable costs. The total calculated recovery includes any amount expressly prohibited and prevents duplication of administrative costs. In addition, the renovation projects should be examined by DAS in total to determine whether the various expenditures reported were appropriate grant costs.

g. Other Salaries and Fringe Benefits

As stated above, the lack of evidence and supporting documentation prevents OIG/DHS from conclusively determining the actual time, if any, spent by each employee on grant activities and relies on the representations made by the Executive Director to the Board. OIG/DHS is also not able to assess the successful accomplishment of the grant goals and objectives based on the inadequate information provided by ATP-MSN. When this assessment is completed by DAS, the results may impact the final determination of allowable employee salaries and the allocability to the grant.

Although the evidence substantiates that a portion of funds were used for non-grant purposes (60% of the executive director and 20% of two staff member salaries) OIG/DHS uncovered minimal evidence to determine that the remainder of employees’ time was spent on grant matters. DAS should determine whether any other salaries and fringe benefits were warranted considering the impact of any other information regarding the accomplishments of grant goals and objectives that would negatively impact the acceptance of these expenditures as allowable grant costs. The assessment should also consider the

necessity for any ATP-MSN employee salaries and fringe benefits considering the services provided by the training provider and other consultants.

h. PDI Training Provider

OIG/DHS was able to verify the supporting documentation for the payments made by ATP-MSN to one of the training providers used by ATP-MSN who provided training courses for the PDI program. Although the supporting documentation reflects that the expense was for a legitimate grant purpose, PDI training courses, OIG/DHS is not able to determine the successful accomplishment of the grant goals and objectives based on the inadequate information provided by ATP-MSN. An assessment of the services provided to DAS and the benefit obtained from the services is required by DAS to determine whether these expenditures are allowable or the funds should be returned to the grantor.

i. DAS Consultant

As noted in our November 20, 2006 report, the evidence indicates that the consultant was hired to work for DAS but that the consultant expense was funded with grant funds and paid by ATP-MSN so that Kane-Cavaiola could avoid using the bidding process to hire him. The then chief DAS fiscal officer noticed that the contract with the consultant required Kane-Cavaiola's signature and he communicated his concern to Kane-Cavaiola's chief administrative officer that the contract appeared to be an effort to avoid the bidding process. He told us that the language in the contract was altered, and the consultant was paid with DAS funds through ATP-MSN. The evidence indicates that the main change in the contract was that Kane-Cavaiola's signature was no longer required but that the consultant nonetheless performed services for DAS.

Although DAS fiscal grant management staff raised concerns regarding the services of this consultant as a grant consultant, the funds were allotted to ATP-MSN's budget. The OIG/DHS review determined that ATP-MSN made the payments to the consultant but did not manage or review the work provided by the consultant. Although the consultant contract was not properly awarded by DAS and does not appear to have any direct benefit to the goals and objectives of the grant awarded to ATP-MSN, it was nonetheless authorized by DAS as grant expenditure. While the mismanagement of DAS is evident, DAS should evaluate the services provided by the consultant and determine any funds to be recovered.

j. Conference Expense, Equipment and Other Expenses

For many years, the annual multi-day conference had been paid by ATP (from ATP membership dues and conference income) and apparently served the purpose and agenda of ATP, the trade lobbying group. However, immediately after Kane-Cavaiola's appointment, she approved the use of DAS funds for this ATP conference and continued to fund the conference every year during her administration.

OIG/DHS verified the expenditures made to appropriate supporting documentation for other costs related to the conference and workshop sessions including speakers and facility costs, equipment purchases and miscellaneous other expenditures. OIG/DHS is not able to determine the successful accomplishment of the grant goals and objectives based on the inadequate information provided by ATP-MSN. We have been told that DAS supported other conferences although not to the extent of the annual ATP conference. DAS should evaluate the benefit received from ATP-MSN from the use of grant funds and whether these expenditures serve a legitimate grant purpose.

FINDING TWO - Inadequate DAS Grant Administration

Grant Administration includes the process and procedures used by DAS to ensure that grants are awarded for programs and projects that support the mission of DAS. This includes reviewing and evaluating proposals and applications, negotiating awards, managing the administrative function of grant awards, determining the financial aspects of grant awards, monitoring grantee progress (program and financial) and performing grant close-out procedures when projects are completed.

Monitoring grantee progress requires grant management staff to perform grant monitoring and oversight activities during the performance of the grant to ensure timely receipt of deliverables, satisfactory performance of grant goals and objectives, and provides for timely suggestions for corrective action, and directing specific action to ensure performance. Aggressive post-award grant monitoring and oversight is also required and includes those activities designed to ensure that performance was delivered as expected under the financial terms prescribed by the grant terms and conditions, including applicable cost principles.

The extensive review of ATP-MSN grant records disclosed serious weaknesses in the grant administration process of DAS. DAS procedures and internal controls in place during the grant performance do not appear to have been adequate to ensure the appropriate use of grant funds. Although these deficiencies were disclosed based on review of the ATP-MSN grants, interviews with the current DAS administration suggest that these conditions are not isolated to the grants awarded to ATP-MSN based on the degradation of internal controls at DAS during Kane-Cavaola's administration. DAS may not have the infrastructure to ensure and provide integrity of the grant administration process and provide compliance with all State and Federal grant requirements that will not jeopardize the State's receipt of Federal funds.

DAS failed to Detect ATP-MSN Violations of Grant Requirements

DAS staff failed to prevent, detect and correct the grant violations committed by ATP-MSN. ATP-MSN violated the grant terms in several ways including when they failed to perform its obligation to accurately report the accomplishments of the Professional Development Initiative (PDI) training. The grantee failed to maintain a financial management system that provided reliable and accurate reporting of the program and its financial performance under the grants. In addition, ATP-MSN failed to maintain appropriate financial records and supporting documentation to substantiate its compliance with the terms and conditions of the grant. ATP-MSN was required but did not maintain a database of the students and the number of courses each attended. ATP-MSN did not properly maintain attendance records or records of students' progress towards certification status. ATP-MSN submitted inaccurate and inconsistent grant progress performance reports misrepresenting the success of the PDI program.

The grant awards made to ATP-MSN included the provision that required performance reports to be submitted at the completion of each quarter, within 10 working days after the end of each reporting period. Often, ATP-MSN's reports were submitted late and often only after DAS made requests for their submission. The reports were not submitted in the format required by the grant terms and conditions. Our review of the reports revealed inconsistencies in the data presented and raised concerns regarding the reliability of the information considering the lack

of detailed student attendance and tracking records to confirm the student attendance information presented in the performance reports. Then ATP/ATP-MSN Executive Director O'Brien told OIG/DHS that he could have provided detailed information if he had analyzed the data provided to him from the organization performing the PDI training, however, he did not perform the analysis.

ATP-MSN did not adhere to all required reporting requirements of the grants and DAS failed to ensure that all reports were submitted. The reporting requirements of the grant included the Minimum Data Set (MDS), narrative grant progress report, year end programmatic report, year end evaluation report and fiscal reporting. The grantee was required to submit quarterly summary MDS reports within 10 working days of the end of the quarter. The grants further state that "Failure to submit quarterly MDS report for one quarter will constitute grant non-compliance and put program in jeopardy of funding being withheld." The grantee did not submit any MDS reports during the grant performance period even after a DAS program manager attempted to require ATP-MSN to do so in the 2005 grant.

Inadequate DAS Evaluations of Grantee Progress

The grants provide that "Grantees level of service will be reviewed on a quarterly basis based on Summary reports and site visits." The only formal evaluation and site visit conducted at ATP-MSN by DAS contained inaccurate and misleading information. Although the grantee failed to perform the grant activities and did not accurately report the accomplishments, the site visit report did not accurately report the grantee's unsatisfactory performance and awarded ATP-MSN the highest rating possible and offered no additional recommendations for corrective action.

DAS Consultant Authorized on ATP-MSN Grant

DAS violated the State's procurement rules and regulations. As discussed earlier, a consultant hired to perform services for DAS was included in the grant award to ATP-MSN. Although ATP-MSN was instructed by DAS to consider this consultant as ATP-MSN's consultant and perform monitoring and oversight of his work, ATP-MSN failed to do so. There was no DAS oversight of the consultant services or evidence of meaningful work product.

Improper Budget Modifications

ATP-MSN failed to adhere to the terms and conditions of the grants regarding the requirements for budget modifications and revisions. ATP-MSN submitted inadequate justifications for the budget modification/revisions and made significant changes to the grants prior to obtaining the required written approval from DAS.

DAS grant administration included a program management officer (PMO) and a grants management officer (GMO). The PMO, assigned to monitor ATP-MSN's grants was appointed by Kane-Cavaiola and was responsible for the programmatic monitoring of the program and technical aspects of the grant. The GMO was responsible for the business and

financial management. The review revealed that program decisions and changes were made and authorized by the PMO before and independent of the GMO's fiscal review and evaluation of the costs necessary to efficiently execute the change. OIG was told that Kane-Cavaiola was responsible for the separation of the PMO and GMO function. Although the GMO told OIG/DHS that he observed several "red flags" in ATP-MSN's conduct, DAS provided minimal response and merely suggested that ATP-MSN obtain the services of an accounting firm. Appropriate follow-up and more intense scrutiny and oversight of ATP-MSN's performance was not performed even when the conduct of ATP-MSN warranted greater oversight.

Other Examples of Inadequate Grant Administration

The review disclosed several other deficiencies in the grant administration performed by DAS with respect to the grants awarded to ATP-MSN:

- Budget modifications and revisions were not processed in accordance with DHSS and DHS rules and regulations.
- Schedules to support budget modifications and revisions that should be prepared by the grantee were prepared by DAS staff.
- Calculations and computations included in the schedules submitted by the grantee supporting the budget modifications and revisions were incorrect but not detected by DAS.
- Budget revisions are not within the allowable limitations set forth in the grant and pertinent rules and regulations.
- Grantees designated as high risk were not monitored as high risk and appropriate measures to mitigate or eliminate noncompliance were not imposed.

During the review of the grant awards, including approved budget modifications and revisions and based on information obtained from DAS employees regarding the grant process, OIG/DHS observed other weaknesses and inconsistencies that require consideration for improvements. The following observations were noted:

- The notice of grant awards for Grant Numbers 05-680-ADA-N-0 and 06-680-ADA-N-0 refer to the awarding agency as DHS yet the applicable attachments, specifically Attachment A, continued to include the language for specific terms and conditions required by DHSS.
- Terms and conditions noted in Attachment A for Grant Number 03-680-ADA-N-0 stated that interim financial reports are required monthly. However, ATP-MSN's financial reports were submitted quarterly.
- Grant Number 04-680-ADA-N-0 was awarded without the receipt of an application and review process. The application dated March 31, 2004 was requested from the grantee by DAS via an e-mail from the GMO. This e-mail indicated that the GMO completed certain of the required forms but would require specific details from the grantee, including the submission of the application.
- Although the grantee's application include narrative comments regarding duplicate funding sources, the budget application and related schedules did not

properly reflect the financial details of these other funding sources. In many instances, the funding sources were through DAS awards to other grantees, which should have reasonably been known or available to DAS during the grant award process.

FINDING THREE - Failure of DAS to Provide Grant Monitoring and Oversight

Typically, adequate grant administration includes aggressive post-award grant monitoring and oversight that complements the on-going grant administration function and monitoring that occurs during the life of grant. Post-award grant monitoring and oversight includes more extensive evaluation and analysis of grant expenditures to ensure appropriate use of grant funds in accordance with grant regulations. The post-award review process considers the grantee's programmatic performance under the grant and accomplishments of grant objectives for the determination of final allowable costs.

DAS did not develop measurable criteria for successful performance of the grant goals and objectives and did not conduct any detailed review and evaluation of the financial performance reported by ATP-MSN. DAS did not perform sufficient monitoring of ATP-MSN's performance or ensure satisfactory performance of the grant goals and objectives. As a result, DAS did not ensure that grant funds provided to ATP-MSN were used for appropriate grant purposes or determine that the reported expenditures, certified by ATP-MSN, were considered allocable and allowable to the grant as defined by the grant regulations and cost principles.

OIG/DHS inquiries of DAS employees revealed that DAS grants management staff relied on ATP-MSN to interpret and adhere to the cost principles in determining the allowable grant costs. Unless evidence of specific wrongdoing was "self reported" by the grantee to the grants management staff, grantees were believed to be in compliance with all grant requirements and supporting documentation was not requested by DAS. Not only did DAS representatives not require ATP-MSN to submit supporting documentation, DAS did not independently verify that grant funds were used for appropriate and allowable grant purposes. They merely assumed that unless notified otherwise all reported expenditures were appropriate grant costs.

DAS Failed to Detect Other Grant Revenue

The July 26, 2006 notice of refundable excess revenue from the accountants for ATP-MSN to DAS clearly demonstrates the inadequate grant monitoring and oversight function that allowed ATP-MSN to improperly use DAS funds without any accountability for appropriate use.

During the review, OIG/DHS discovered significant revenue from other entities reported on the books and records of ATP-MSN that was not reported to DAS. Kane-Cavaiola confirmed that while she served as Assistant Commissioner of DAS, she was made aware of an allegation of duplicate funding and acknowledged that she did nothing to investigate the allegation. As a result of OIG/DHS questioning ATP-MSN on these other sources of revenue, the accountants for ATP-MSN subsequently advised DAS in a letter dated July 26, 2006 that they had completed an analysis of revenue and expenditures for the grantee and concluded that "...there were unspent non-direct DAS fund grants and contracts." The letter includes a schedule of the "...refundable excess revenue derived from these sources..." that totals \$174,993 including

\$27,315 of interest.⁸ The analysis completed by ATP-MSN's accountants for the period 2001 through 2005 also identified DAS as the source of funds for the sub-grants and identified a \$74,220 refund. The analysis recognized other non-direct DAS contracts that reflected a refund of \$73,458. The analysis did not properly recognize that DAS or the State participated in some of these other revenue sources. The letter requested guidance from DAS on how to refund these monies.

In a separate letter from ATP-MSN's accountants, also dated July 26, 2006, OIG/DHS was advised that \$22,565 of conference fee income recorded in the books of ATP-MSN was actually ATP funds and was erroneously deposited to an incorrect ATP-MSN account. This amount was not included in the excess revenue to be refunded back to DAS. However, OIG/DHS' further analysis of this revenue and supporting documentation revealed that some of this revenue was in fact earned by ATP-MSN and reported on the books of the grantee but misclassified to the conference fee income account. ATP and ATP-MSN are unable to provide supporting documentation for all of these transactions.

The final reports of grant expenditures for Grant Number 05-680-ADA-N-0 and Grant Number 06-680-ADA-N-0 were submitted to DAS in August 2006. However, the OIG/DHS analysis and review of the program income reported for Grant Number 06-680-ADA-N-0 revealed underreported program income which resulted from incorrect and misclassified financial transactions. In a letter to OIG from ATP-MSN's accountants, dated November 14, 2006, the accountants concurred with OIG/DHS' determination of the misclassified other income and advised that a revised final report of grant expenditures would be submitted. The revised report was received by OIG on December 22, 2006 and reflects the corrections for program income and additional expenditures made by ATP-MSN that were authorized by DAS.

Excessive Salary Increases

The OIG/DHS review disclosed excessive and unreasonable salary increases given to ATP-MSN's key management staff. The increases were not sufficiently detailed in the initial application and were often disguised as improper budget revisions. DAS did not perform sufficient review and analysis of the salary increases claimed by ATP-MSN. ATP-MSN did not provide full disclosure and details of the grant staff salaries. ATP-MSN did not maintain adequate policies and procedures that established criteria and measurable goals for employee salary increases.

Improper Distribution and Potential Improper Use of Funds Designated for Barrier Free and Life Safety

DAS did not provide any guidance or direction on the distribution of the \$3.8 million of grant funds designated for the barrier-free and life safety initiative included in Grant Numbers 05-680-ADA-N-0 and 06-680-ADA-N-0. DAS also failed to adequately monitor and supervise

⁸ Grant awards authorizing advance payments to grantees from DAS are required to be maintained in interest bearing accounts. Annually, grantees are required to report and reimburse to DAS any interest income earned, from all grants, in excess of \$250.

the distribution and performance of the awards and did not detect the misuse of funds and abuse by the treatment agencies receiving the funds.

Despite ATP-MSN's request and receipt of guidance from DAS and their own standards for project selection, OIG/DHS observed that ATP-MSN did not follow its self-imposed requirements and did not comply with the directions received in April 2005 from DAS. The review revealed that ATP-MSN violated the minimal guidance it solicited and received from DAS as well as its own documented process for sub-grant administration. ATP-MSN did not properly distribute and monitor the DAS grant funds awarded to the treatment providers for the barrier-free and life safety projects.

DAS did not provide appropriate monitoring of the grant funds distributed to the treatment providers leading to concern that ATP-MSN failed to ensure that the funds were distributed and used for projects meeting the scope and intent of the barrier-free and life safety initiative. Specific criteria for projects qualifying as barrier-free and life safety were not provided from DAS or developed by ATP-MSN. A cursory review of the project files provided to OIG/DHS from ATP-MSN revealed projects that may not qualify as barrier-free or life safety as intended by the DAS/DHS and the grant award.

ATP-MSN failed to maintain adequate supporting documentation for the DAS grant funds distributed for barrier-free and life safety projects that would enable OIG/DHS to determine appropriate and legitimate disbursement of State funds.

Inadequate Budgetary Process

DAS did not perform adequate review or analysis of the budgetary data submitted by ATP-MSN to ensure that only allowable and reasonable costs were budgeted based on historical experience. ATP-MSN did not prepare its grant budgets utilizing current, accurate and reliable information resulting in grant over funding. The over funding that existed from the inadequate budget estimates was later used to the benefit of ATP/ATP-MSN when these funds were requested to be transferred and used for other budget line items in the grant or as modifications to the follow-on years' grant increasing the total value of the grant.

ATP-MSN failed to properly budget fringe benefit costs and included significant increases in subsequent grants without considering historical experience to substantiate that the amounts are reasonable and allowable. In addition, details supporting the fringe benefit rate included in the application were not consistent with the actual expenditures reported in the books and records or the supporting details provided to DAS. All increases were approved by the DAS program director assigned to the grants by Kane-Cavaiola.

The review disclosed concerns with the budgeted automobile and travel costs included in the grant budgets. In some grants, ATP-MSN estimated the travel costs based on the number of miles to be traveled reimbursed at the IRS approved rate rather than the lower actual costs of the leased vehicle payments. In addition, OIG/DHS has not been able to determine the necessity for the vehicles for grant performance or that the automobile leases were executed in accordance with the procurement regulations as stipulated in the grant regulations.

Other examples of DAS' Failure to Provide Monitoring and Oversight

- Interim and final reports of grant expenditures and progress reports were routinely submitted late by the grantee. Appropriate follow-up actions were minimal and not in all cases sufficient to ensure the appropriate use of funds.
- Interim and Final Reports of Grant Expenditures were not reviewed in light of the approved budget and other information available and provided to ensure that the grantee adhered to the approved program and staffing levels and ensure compliance with the terms and conditions of the grant.
- Reported salary expenditures were not in accordance with the authorized staffing levels stipulated in the approved grant. DAS did not perform detailed review of the salary increases and did not detect or prevent excessive salary increases ATP-MSN gave to the grant staff.
- Evidence in the DAS grant file for Grant Number 03-680-ADA-N-0 indicated the grantee was classified by DAS as “high risk”. However, based on discussions with DAS employees, no additional monitoring and oversight of the grantee was performed then or later even when it was evident that required program and fiscal reports were not submitted within the time frames required by the grant. Other “red flags” were detected by DAS staff that should have triggered increased monitoring effort.
- Although DHSS rules and regulations require the grantee to maintain detailed equipment records and require that a physical inventory be taken, it is unclear that DAS ever requested or reviewed these records to ensure that equipment purchases and expenditures reported on the grant were in accordance with the grant budget and necessary for the performance of the grant goals and objectives.
- DAS relied on the ATP-MSN’s self-reporting and did not request back-up documentation even when concerns were raised. Concerns such as late or incomplete reports, reporting ineligible or unallowable expenses, reporting over or under expended funds during the grant year, end of year requests for budget modifications and revisions, were not properly monitored or acted upon.
- Strong and undue reliance was placed on the single audit report by the DAS fiscal staff for its review of the grant fiscal performance. The single audit reports simply report the amount of grant funds expended during the audit period. It is not clear that the audit included a detailed examination of reported grant expenditures and the determination of allowability based on the grant terms and conditions, cost principles and DHSS and DHS regulations. The audit period is conducted on the accounting period of the grantee, in the case of ATP-MSN, a calendar year, compared to the grant period of performance which is a fiscal year (April through March).

- In addition, the single audit reports are submitted many months after the grant has been completed which is often after follow-on grants have been awarded. Therefore, they are not useful in making decisions whether to continue or extend grant funding to the organization.

RECOMMENDATIONS

I. Recover Grant Funds

Department of Human Services (DHS) should immediately seek recovery of the \$1,766,115 grant funds used in ways expressly prohibited by the grant rules, regulations and cost principles; the unspent grant funds; and duplicate funding provided to ATP-MSN.

DAS is responsible for assessing whether the \$4,442,967 of questionable grant expenditures were expended for legitimate grant purposes. DAS should evaluate the performance of ATP-MSN, the accomplishments attained, and the financial value of the services provided by ATP-MSN. DHS should immediately recover any grant funds determined by DAS' assessment to be inappropriate, unallowable and unallocable for grant purposes.

The evidence gathered during OIG's investigation revealed that several ATP/ATP-MSN representatives, including Board members, officers, and the joint Executive Director were directly involved in, were aware of, or were complicit in the misuse of DAS funds described in this report. Although ATP and ATP-MSN are separate legal entities, OIG investigation and report dated November 20, 2006 concluded that ATP-MSN existed only as the alter ego of ATP and was managed entirely by the actions and directions of ATP's Board of Directors and other influential ATP members. Accordingly, the assets, including bank accounts and directors and officers insurance of both ATP and ATP-MSN, should be considered in the recovery of the overpayments resulting from the misrepresentation of the former ATP/ATP-MSN Executive Director.

In accordance with Subpart U, After-The-Grant-Requirements, of the DHSS Terms and Conditions, DHS should charge interest on the unallowable costs that are not repaid by ATP-MSN within 30 days of notification of the debt.

II. Accountability of Board Members

The evidence gathered during OIG's investigation revealed that several ATP/ATP-MSN representatives, including Board members, officers, and the joint Executive Director were directly involved in, were aware of, or were complicit in the misuse of DAS funds described in this report. In addition to recovering the overpayment from ATP/ATP-MSN for the misuse of State grant funds, DAS should take appropriate action against those individuals determined to be responsible for the misuse of grant funds and ensure accountability and integrity of DAS operations and the grant administration process.

III. Drug Court Lead Agency Grant Close-out

The future close-out of the Drug Court Lead Agency grant should take into consideration the final allowable costs of Grant Number 06-ADA-680-N-0, specifically the salaries, fringe benefits and other office expense allocable to both grants to prevent duplicate funding to ATP-MSN from DAS.

Actions Related to DAS Grant Award, Monitoring, and Oversight

As the new DAS administration moves forward with undertaking the corrective actions necessary to reconstruct the dismantled internal controls effectuated by the former DAS administration, the following recommendations require immediate attention to prevent the potential fraud, waste and abuse of State funds. We have worked with the DAS administration and understand that DAS is initiating overall administrative changes and these recommendations may have been implemented prior to the issuance of this report.

IV. Organizational Structure

DAS should evaluate its current organizational structure, including staffing and other resources to ensure that adequate staffing are designated for grant administration, monitoring and oversight. The analysis should include an assessment of the experience and qualifications of the current staff to ensure that DAS employs an adequate mix of staff complements to perform meaningful program and fiscal monitoring and oversight of the grants.

Blind trust and reliance on grantee reported experience and self-reported violations should not be the leading factor that initiates corrective actions. The structure should provide the ability for staff to investigate issues and concerns without time constraints that prohibit timely action and remedial action to prevent and detect misuse of grant funds. DAS should create and foster an appropriate environment that promotes collaboration and sharing of pertinent information that impacts grant funding, monitoring and reported expenditures, both within DAS and DHS. To the extent possible, coordination with other State agencies should be considered to include procedures and processes that will prevent duplication of services and funding. Employees should be empowered and expected to proactively monitor and provide oversight of grant funds to ensure the integrity of DAS, DHS and State funds.

V. Internal Controls

DAS should immediately evaluate and assess its internal controls to assure that there is a system in place that is adequate to protect DAS funds from misuse, and to assure DAS funds are awarded for projects benefiting DAS clients and are used for an appropriate purpose. If any deficiencies in the procedures are discovered during that review, the procedures should, of course, be modified to correct the deficiencies.

DAS should design and implement policy, procedures, and specific processes to ensure that State funds are awarded appropriately, grant goals and objectives are achieved, the grant program is monitored and the fiscal performance is reviewed and evaluated with appropriate oversight. The system must provide the necessary infrastructure to ensure grant funds are used in accordance with State and Federal grant rules and regulations and that the funds are awarded for projects benefiting DAS clients. Ongoing evaluation of the effectiveness of the internal controls must be made to ensure that they are working as designed. If any deficiencies in the procedures are discovered during that review, the procedures should, of course, be modified to correct the deficiencies.

VI. Grant Compliance and Monitoring

Detailed procedures should be established to provide routine and meaningful monitoring of the grant program and fiscal performance. DAS should consider establishing a formal grants compliance office to perform detailed reviews and audits of the grantees interim and final reports of grant expenditures. These reviews should be performed independent of the grant administration process to ensure that appropriate internal controls are implemented and working effectively.

DAS should develop and implement a formal, structured audit plan to perform different levels of review (desk reviews where supporting documentation is reconciled to interim and final reports of grant expenditures, detailed analysis of sensitive and high dollar budget line items, detailed audits to verify compliance with grant terms and conditions and other types of reviews to ensure compliance with grant regulations) based on a sample or cycle of review that ensures all grants are monitored in accordance with the established audit plan. DAS should dedicate adequate resources to ensure that reviews are performed timely to provide early detection of indiscretions and seek immediate recovery of grant funds found to have been improperly used by grantees. The system should include sufficient communication of the expectations of the grantees to serve as a deterrent and prevent inappropriate use of grant funds.

VII. Consistent Grant Award Practices

A formal system must be established to approve grant funding opportunities to ensure that State funds are used only for appropriate purposes, that grant goals and objectives are clearly defined, measurable performance criteria are established and baselines of acceptable and unacceptable performance and achievement of grant goals are established. The system should include consideration of the award and selection committee to prevent bias in the award process to ensure fair and competitive grant funding opportunities.

DAS grants management practices should be evaluated and include specific policies, procedures, and timeframes for the completion of each phase in the grant administration process that provide consistency and standard practices for the following:

- Grant Application, Evaluation, Selection and Award Committee
- Grant Modifications and Revision Process
- Grant Award Documents
 - Grant award terms and conditions are properly executed and that grant reporting is consistent with the terms specified in the grant award
- Grant Monitoring and Performance including:
 - Designation of high risk grantees and appropriate measures for stricter monitoring
 - Some level of grant monitoring and evaluation must occur with each award. An audit plan to perform desk reviews when risk is assessed at a minimum and more detailed reviews when grantee risk is greater

- Immediate action to recover any grant funds determined to have been improperly used or misappropriated
- The single audit report should not be the primary determination of fiscal grant performance
- Formal evaluations of the grantee's performance which include assessments of the program, financial performance and overall grantee operations should be made on a regular basis. The evaluation process should include site visits and appropriate monitoring of grant staff to ensure that services are being rendered consistent with the terms of the grant staff monitoring
- Review of supporting documentation for sensitive transactions
- Property and equipment reporting, inventory and disposition
- Sub-grant monitoring procedures to ensure adequate sub-grant performance

VIII. Standardized Reports

Narrative and progress reports should be submitted by grantees in standardized formats that promote ease of review and evaluation by DAS. The determination of grantee performance in accordance with grant goals and objectives should be readily determinable based on the evaluation criteria specified in the grant. DAS should consider implementing total cost reporting that will provide detailed information of the grantees' total expenditures necessary to ensure that DAS funds are utilized only for grant purposes as designated by the grant goals and objectives.

DAS should implement practices that ensure grant funding for personnel costs (salary and fringe benefits) is routinely reviewed and evaluated. The reviews should consider all DAS grant activities to prevent duplicate funding from DAS. Salary increases should be based on established criteria and annual limits should be established based on current economic forecasts.

A system within DAS should be developed to provide coordination of all DAS grant funds provided to a grantee. Other funding sources should be reviewed and evaluated, and when possible, include coordination with other DHS and State agencies to ensure that duplicate State funding is not provided to a grantee. The grantee's fiscal reports should be carefully reviewed to determine that all pertinent program income has been disclosed in a timely manner.

IX. Grant Goals and Objectives

The specific goals and objectives of the grant should be clearly contained in a single document referenced in the grant agreement. Acceptable performance and measurable criteria should be included to promote timely evaluation and determination of the grantees accomplishments.

X. Training

DAS staff should be trained in the grant administration, monitoring and oversight policies and procedures. Specific job duties and responsibilities need to be developed and communicated to all staff involved in the grant administration process. Emphasis should ensure adequate oversight of the grantee that provide appropriate distribution of grant funds and monitoring functions that provide assurances that grant expenditures are in accordance with grant terms and conditions. Individual job functions need to be designed to work independent of other functions but ensure adequate grant administration and appropriate grant expenditures.

OIG/DHS' investigation revealed that some DAS employees responsible for the ATP-MSN grants did not properly perform their job function designing and monitoring DAS grants. The evidence indicates that through the totality of Kane-Cavaiola's actions with regard to ATP and ATP-MSN, she created an atmosphere that discouraged generally conscientious employees from adhering to procedures intended to protect DAS funds. Therefore, OIG/DHS recommends that DAS staff receive training to assure that they understand the processes in place and the importance of adhering to the procedures regardless of the identities of the grant recipients.

RECOMMENDATIONS FROM OIG's EARLIER REPORT

Many of the recommendations identified in our November 20, 2006 report are noted above as necessary corrective action for the findings disclosed in the grant performance and compliance review, specifically the recommendations regarding internal controls and training. Certain other recommendations from the earlier report are reiterated below for immediate consideration by DAS to ensure appropriate use of grant funds.

I. ATP/ATP-MSN Oversight Failure Demonstrates the Need for Grant Recipient Training

As noted earlier, several ATP/ATP-MSN representatives, including Board members, officers, and the joint Executive Director were directly involved in, were aware of, or were complicit in the misuse of DAS funds described in this report. In addition to their responsibilities as ATP/ATP-MSN representatives to assure that ATP/ATP-MSN properly used DAS funds, most of these representatives also occupied high level management positions at a treatment provider agency or facility. DAS relies on these representatives to self-police, and in their employment positions they are each entrusted with the proper use of DAS funds awarded to their agency or facility. Because of the obvious failure of ATP and ATP-MSN Board members, officers, and the Executive Director to perform their responsibilities to assure that the public funds provided to them were properly used and the broader scope of the responsibilities of these individuals, OIG recommends that all DAS grant recipient management employees and Board members who are responsible for spending DAS grant funds receive training in their responsibilities to assure compliance with grant requirements.

II. Additional Risk Audits

The evidence gathered during OIG's investigation substantiated the allegations in an anonymous letter regarding improprieties in the award and monitoring of grants benefiting ATP and ATP-MSN. The anonymous letter contained several other detailed allegations indicating that other DAS grant recipients received favored treatment and unwarranted benefits during Kane-Cavaiola's tenure as Assistant Commissioner of DAS. Therefore, OIG recommends that DHS and DAS conduct risk audits for contracts referenced in the anonymous letter and other contracts awarded during Kane-Cavaiola's tenure to ATP members to determine whether they were properly awarded and administered and that the funds were used in accordance with State and Federal requirements.

REFERRALS

- I.** As a result of the grant violations discovered during the review, improper use of grant funds and knowing misrepresentations of both the grant program and financial performance reported by ATP-MSN, OIG referred this matter to the Division of Criminal Justice for determination whether the conduct warrants criminal prosecution. This report supplements OIG's November 20, 2006 report and referral to the Division of Criminal Justice.
- II.** In addition, OIG has reported possible violations of State Ethics laws to the State Ethics Commission regarding actions of certain State employees and possible improprieties observed during the performance of the grants.
- III.** OIG will refer possible violations of State wage and hour reporting to the Department of Labor and to the Department of Treasury, Division of Taxation for a determination of appropriate tax reporting.

DETAILED ANALYSIS, ISSUES AND OBSERVATIONS

During the course of our review, several deficiencies and weaknesses were noted that demonstrate ATP-MSN's gross mismanagement, inadequate grant administration, improper reporting of the program accomplishments, and misrepresentations of financial performance. In addition, the lack of controls regarding the grant award, monitoring and oversight practices at DAS as they relate to the grants awarded to ATP-MSN were observed.

In order to assist DAS with its corrective actions, sufficient details of the deficiencies and weaknesses are presented herein.

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I. Failure to Maintain Required Financial Records and Improperly Reported Grant Financial Performance

The notice of Grant Award includes Attachments A, B and C that incorporate the grant terms and conditions, approved operating budget, and program goals and objectives. Attachment A of the grant awards incorporates the DHSS Terms and Conditions for Administration of Grants. The terms and conditions include a compilation of all required Department policies and grant rules and regulations. The grantee is required to establish sound and effective business management systems to “assure proper stewardship of funds and activities.” Subpart E, Standards for Grantee and Subgrantee Financial Management Systems, prescribe the detailed standards and requirements for the grantee’s administration and management of the financial system, grant expenditures and financial reporting.

Subpart E, Standards for Grantee and Subgrantee Financial Management Systems, prescribe the detailed standards and requirements for the grantee’s administration and management of the financial system, grant expenditures and financial reporting. Financial control and accounting procedures must be sufficient to permit the preparation of reports required by the grant and to establish that grant funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Attachments A and C of the grant awards and Subpart R, Financial Reporting, details the requirements for financial reporting.

ATP-MSN did not maintain the financial management system to provide current, accurate and complete recording of all financial transactions in a timely manner. ATP-MSN omitted and misrepresented to DAS significant and critical facts regarding the financial performance of the grants. Specifically, the grantee overstated grant expenditures and understated program income reported in the required reports of grant expenditures which resulted in multiple reimbursements of costs.

The grant terms and conditions require that the grant reporting be consistent with the financial management system. The reported grant expenditures were not based on the actual costs reflected in ATP-MSN’s books and records and in many instances could not be substantiated with supporting documentation.

From the very beginning, ATP-MSN failed to properly account for grant funds. The initial sub-grant award from the National Council on Alcoholism and Drug Dependence (NCADD) to ATP-MSN was authorized by DAS in a letter dated May 24, 2001. In addition to approving the PDI sub-grant for \$200,000, DAS authorized and directed NCADD to provide a \$4,000 advance to ATP-MSN in order to initiate the training needs assessment. This advance, although recorded as income on the books of ATP-MSN, was not properly posted as NCADD revenue. The advance was not included as sub-grant revenue by ATP-MSN in the report of grant expenditures thereby incorrectly understating sub-grant revenue resulting in over payments to ATP-MSN.

ATP-MSN did not submit accurate, complete and timely reports of grant expenditures required by the terms and conditions of the grant. The required reports were often submitted late and often had to be requested by DAS, sometimes upon threat of suspended payments. Often the reports were not based on actual costs incurred but simply an allocation of the approved budget which is misleading and a violation of grant regulations which require accurate reporting of actual expenditures incurred. The grantee's reported expenditures include significant unallowable and unallocable costs in violation of the grant regulations and applicable cost principles.

OIG/DHS observed continuing disbursements for ATP expenses paid from ATP-MSN bank accounts, with DAS grant funds. Review of the reports of grant expenditures submitted to DAS by ATP-MSN revealed several other problems regarding the information reported by the grantee including:

- Amounts recorded in the books and records did not reconcile to the reported grant expenditures. In some instances, the amounts recorded in the books and records are less than the amounts reported in the reports of grant expenditures.
- Costs were reported in the reports of grant expenditures before ATP-MSN requested or DAS approved budget revisions and modifications.
- Expenditures reported in the reports of grant expenditures were based on an allocation of the approved budget and did not represent the actual costs reflected in the books and records.
- Equipment purchases included in vendor invoices were not properly reported as equipment purchases under the terms of the grant.
- Some of the reports of grant expenditures submitted under Grant Number 05-680-ADA-N-0 were certified by the Executive Assistant of ATP-MSN who is not at a high enough level in the organization to satisfy the requirement of the Chief Financial Officer of ATP-MSN.

The reports of grant expenditures require management certification. The certification states:

I certify this report is true and correct and all expenditures reported herein have been made in accordance with the terms and conditions of this grant and are properly reflected in the grantee's accounting records. The form includes space for the Chief Financial Officer's name, title, signature and date.

Although incomplete, incorrect or false, most reports were certified by the ATP-MSN Executive Director.

II. Unallowable Costs

Subpart E, Standards for Grantee and Subgrantee Financial Management Systems, requires detailed accounting records to support the financial expenditures. Accounting records shall be supported by specific, detailed source documentation. Subpart H, Allowable Costs, details the specific requirements and cost principles for determining allowable grant expenditures. DHSS utilizes the Federal cost principles for determining allowable costs which also specify the required accounting records and documentation necessary to support the grant expenditures. OMB Circular A-122 prescribes the Federal cost principles for a nonprofit organization.

Generally, under DAS' current grant monitoring processes and practices, grantees are not required to submit supporting documentation to substantiate the amounts and purpose of the reported grant expenditures. Typically, detailed documentation is not requested unless "red flags" – missing and late performance reports, financial distress, self-reported problems, failure to respond to DAS inquiries -- are raised that would then warrant a detailed review.

OIG/DHS' review revealed that ATP-MSN did not keep most of the required accounting records and those that were kept were inadequate. Moreover, typically DAS did not require ATP-MSN to submit supporting documentation to substantiate the purpose and reported grant expenditures even when they should have been alerted to "red flags" that would justify the need to ensure appropriate use of grant funds. In this case, there were several "red flags" raised that should have alerted the grants administrative staff to the need for greater scrutiny of the grant awards to ATP-MSN. If adequate grant monitoring been performed by DAS, clearly the lack of and inadequate supporting documentation would have been made known to DAS and appropriate corrective action to ensure appropriate use of State grant funds could have been implemented to prevent unallowable and personal costs being paid for with grant funds.

DAS Fails to Detect Unallowable Costs

In this case, there were "red flags" regarding ATP-MSN's performance under the grants that warrant detailed questioning and review by DAS. Most, if not all, of the unallowable costs discovered by the OIG/DHS review could have and should have been identified early-on by DAS had detailed supporting documentation been requested and reviewed by DAS.

Sensitive costs, such as travel, entertainment and vehicle use, include the potential for significant abuse and improperly reported personal use. DAS should give consideration to revising its current grant monitoring practices and routinely request supporting documentation during the review of interim and final reports of grant expenditures to ensure appropriate use of grant funds and to identify unallowable costs. Routine review of the supporting documentation should be made until a grantee has established acceptable and satisfactory reporting of allowable grant expenditures, then random spot checks can be performed to ensure continuing compliance with the grant terms and conditions.

ATP-MSN Ignores Grant Rules and Regulations

OMB Circular A-122 identifies the expressly unallowable costs, including such expenses related to donations and contributions, entertainment including alcohol, fines and penalties, lobbying and public relations, personal use of automobile, and costs incurred before the grant period of performance. ATP-MSN reported approximately \$430,916 of unallowable costs as grant expenditures.

OIG/DHS' review revealed several circumstances of unallowable costs improperly reported in the interim and final reports of grant expenditures by ATP-MSN and not detected by DAS grant administration staff, including:

- Meals and refreshments for functions not required or related to the performance of grant goals and objectives including ATP Board meetings and other staff conferences.
- Travel costs including mileage for personal vehicles where employee expense reports have not been provided to substantiate the nature and purpose of the trip and its relation to the grants.
- Employee expense reports where supporting receipts have not been included to substantiate the nature and purpose of the expense and its relation to the grants.
- Costs incurred prior to the effective date of the grant or subsequent to the grant performance period.
- Costs related to the business and activities of ATP.
- Reimbursements for employee travel expenses from third parties.
- Personal use of leased vehicles including automobile lease payments, insurance, and related costs for gasoline, repairs and maintenance: a significant amount of the costs represent the executive director's personal commuting to work.
- Adequate documentation supporting the business mileage including dates of travel, location of travel and actual mileage driven were not maintained and could not be provided to OIG/DHS. OIG/DHS was advised by ATP-MSN's accountants that detailed vehicle log reports were not maintained and a significant amount of the mileage was for personal vehicle use as defined by the IRS and the cost principles.
- In 2004, the Executive Director's W-2 issued from ATP-MSN reported a taxable amount for his personal use of the leased vehicle. This amount was improperly reported by ATP-MSN to DAS as grant expenditures. The 2005 W-2 for the Executive Director did not report any taxable amount for his personal use of the leased vehicle. The accountant/consultants for ATP-MSN advised OIG that they are not aware of any changes in 2005 that would change the reporting and personal use of the leased vehicles. However, that having been the case, it is reasonable to assume in 2005, as well, personal travel expenses were paid with grant funds and not attributed to income of the individual.

Other Comments Regarding the Leased Vehicles

The grant requires that the "lease or purchase of a vehicle must be done in conformity with the procurement regulations of the Department of Health and Senior Services." Evidence to substantiate that the automobile leases were executed in accordance with the grant requirements was not provided. In addition, ATP-MSN did not provide evidence to support that the leased vehicles were necessary to perform the activities of the grant.

Inadequate Allocation of Expenses

In order to determine the allowable grant expenditures in accordance with the cost principles contained in the grant, OIG/DHS performed financial analysis to determine a fair and equitable basis for the allocation of rent and other office expenses attributable to ATP. The following allocations for shared costs of the organizations were applied:

1. Facility rent prior to the relocation to Cranbury on or about October 2004, shared equally by ATP and ATP-MSN.
2. Allocation of office expense (including supplies, telephone, and printing services) to ATP for its share of expenses was determined based on the employee's time spent on non-grant activities and is based on the calculation of allowable salaries for the entire period of grant performance as a percent of total salaries paid to all ATP-MSN employees during the total period of grant performance. This resulted in a 25% allocation to ATP for its share of office expenses. This includes rental costs for the period after the relocation to Cranbury in October 2004. The office expense allocation may need to be adjusted for any additional salaries and fringe benefits determined by DAS' review to be unallowable.

III. Allocation of Expenses for Non-Grant and Non-ATP-MSN Activities

Subpart E, Standards for Grantee and Subgrantee Financial Management Systems, requires detailed accounting records to support the financial expenditures. Accounting records shall be supported by specific, detailed source documentation with attention to the documentation for costs related to activities for employees charged partially or fully to grant awards. Subpart H, Allowable Costs, details the specific requirements and cost principles for determining allowable grant expenditures. DHSS utilizes the Federal cost principles for determining allowable costs which also specify the required accounting records and documentation necessary to support the grant expenditures. OMB Circular A-122 prescribes the Federal cost principles for a nonprofit organization. Costs not related to the performance of the grant are to be allocated to the project or cost objective to which they were incurred or benefit.

In the reports of grant expenditures, ATP-MSN reported at least \$312,000 of improper salary and fringe benefit costs as grant expenditures. In 2005, when directed by ATP/ATP-MSN consultants that it was necessary for ATP-MSN to allocate the salaries related to ATP-MSN's employees' time spent on ATP activities, the allocations that were made were inadequate. The false data reported to DAS apparently resulted from the failure of ATP-MSN's Board and shared Executive Director to provide accurate information to its accountants. In addition, the allocation did not include the cost of ATP's use of other assets and expenses (rent, equipment, travel expenses) paid for with DAS funds.

The sub-grant budget included the salary for the Director of Training position. OIG/DHS was advised by the Executive Director of ATP-MSN that he held this position in addition to performing the duties and responsibilities of Executive Director for both ATP and ATP-MSN. No attendance and activity reports to substantiate the employees' time spent in each capacity were ever maintained. Although the then Executive Director told ATP/ATP-MSN consultants, and OIG/DHS during its investigation that 20% of his time was spent performing non-grant, ATP activities, evidence obtained during the review indicates that this assertion was false. As discussed earlier in this report, the Executive Director represented to the ATP/ATP-MSN Boards that while the grant has grown significantly and the workload remains the same, he spends about 60% of his time on ATP member issues contrary to the 20% represented to the ATP/ATP-MSN consultants and OIG.

At the February 24, 2005 ATP-MSN Board Meeting, it was agreed that ATP-MSN cover 80% of the salary for three employees and the other 20% would be allocated to ATP. Not only was this allocation less than the earlier representations made to the Board by the Executive Director, the allocations actually recorded are significantly different from those agreed to by the Board.

Because the Executive Director acknowledged to the Board that he spends 60% of his time performing non-grant and ATP activities and the lack of supporting documentation to demonstrate otherwise, OIG/DHS has determined that at most 40% of the Executive Director's salary and fringe benefits are allocable to the grant. Based on the February 2005 Board meeting minutes at most 20% of salaries and fringe benefits for the executive assistant and public relations employees are allocable to the grant.

The salaries not allocable to the grants were computed based on the actual reported salaries by ATP-MSN in the employer's payroll tax returns since the accounting records did not provide details of the actual gross salaries earned and paid but rather the net salary paid to the employee after payroll tax withholdings. Because the payroll registers were not provided for all years under the grants reviewed, OIG/DHS utilized the actual salaries reported in the payroll tax returns which were reconciled to the employee's annual tax reporting statements, Forms W-2.

The Boards of ATP/ATP-MSN permitted ATP-MSN to pay employee salaries with DAS grant funds for the time employees' spent on ATP matters. In April 2005, the Boards of ATP and ATP-MSN "corrected" the allocation of salary for the executive director and executive assistant by executing consultant agreements for time spent performing ATP business. The agreements provided that the executive director would be reimbursed \$1,500 per month and the executive assistant would be reimbursed \$150 per month for services rendered by them to ATP. Detailed records to support the actual days, hours and service provided were not maintained. The payments to the employees were treated as independent contractors and not considered taxable wages, which may be contrary to IRS and State regulations regarding the classification of employees and independent contractors. The amount of compensation that ATP directly pays to the employees for the time they spend on ATP business represents a much lower allocation than the 20% previously communicated to the Board by former Executive Director O'Brien. Considering the statements made by the Executive Director and the amount of time spent by the executive assistant on ATP matters, the compensation appears low and may not have met the State minimum wage requirement.

After the ATP/ATP-MSN Boards decision to reimburse the employees ATP-MSN did not adjust the salaries paid to the employees or otherwise provide evidence to DAS (or OIG during its investigation) regarding the work hours and changes to time required to perform the grant duties and ATP business. In the absence of detailed activity reports and evidence to substantiate the time employees' spent on ATP and ATP-MSN matters, OIG/DHS cannot determine the actual effort that employees' spent on ATP-MSN business to evaluate the reasonableness of the salaries paid by ATP-MSN with DAS grant funds. If employees receive the same salary from ATP-MSN and now also receive the additional compensation from ATP but continue to work the same hours for each activity as before the "correction", then the compensation that employees receive from ATP really represents a salary increase from ATP-MSN. In 2005, for instance, the former executive director now receiving an additional \$18,000 from ATP without any documented increase in total work hours, actually received an increase of approximately 16% compared to his 2004 salary (as discussed later in Section X the ATP/ATP-MSN Boards also awarded O'Brien a \$12,000 bonus in 2005 that in effect provided him nearly a 30% salary increase compared to his 2004 salary).

IV. Improper Use of Grant Funds

Subpart E, Standards for Grantee and Subgrantee Financial Management Systems, prescribe the detailed standards and requirements for the grantee's administration and management of the financial system, grant expenditures and financial reporting. Grantees are required to expend funds and account for grant funds in accordance with applicable Federal and State legislation.

Subpart H, Allowable Costs, details the specific criteria for determining allowable grant expenditures. Allowable costs must be authorized or otherwise not be prohibited under Federal, State, or local laws and regulations. The Federal cost principles contained in OMB Circular A-122 specifically prohibit specific costs, including certain advertising, lobbying and public relations.

ATP-MSN used grant funds to obtain lobbying services for ATP and its member agencies. Review of the supporting documentation provided from ATP-MSN does not support that the consulting services provided from the lobbying firm were actually services provided to ATP-MSN and are allowable grant expenditures in accordance with the scope of services included in the grant application approved by DAS. Requested copies of contracts, documentation supporting the work performed, and documentation supporting how these services benefited the PDI program were not maintained or provided for all professional service consultants.

ATP-MSN did not provide a contract between the lobbying consultant and ATP-MSN. Documents provided by ATP-MSN to DAS to justify the use of grant funds, including copies of consultant agreements, demonstrate that the services obtained from the consultant were for the benefit of ATP and its members in support of its lobbying agenda. DAS failed to adequately review the consultant agreements and ensure that contracted services were rendered to ATP-MSN, were for legitimate grant purposes and that the services obtained were allowable in accordance with the grant regulations and cost principles.

Consultant work to be performed according to the grant application relates to "workforce public relations and stigma reduction." The consultant's responsibilities and duties are identified as "to develop and implement a comprehensive Public Relations effort to attract new workers and change the public attitude about addictions treatment and prevention profession." However, invoices from the consultant for the services rendered to ATP-MSN simply state "Professional Services – Public Relations Project". Invoices did not include specific details of the consultant rendering the service including the specific scope of service performed, date and hours or any other information including contacts and discussions held.

ATP paid for professional lobbying services from the consultant based on a December 2003 agreement executed with the consultant firm. ATP-MSN used DAS grant funds to pay for the services obtained from the same consultant in a contract executed in June 2004 that identifies the contract party as ATPNJ – who is ATP. The then Executive Director O'Brien told OIG that the reference to ATPNJ in the contract was a mistake and that the services were actually provided to ATP-MSN in support of the grant objectives. However, contrary to O'Brien's assertion, the documents provided indicate that work was done to benefit ATP. Even if the contract incorrectly identified ATPNJ as the client, the services provided by the consultant

were actually unallowable lobbying costs obtained to further ATP's agenda that would never be allowable grant expenditures under the grant terms and conditions.

The action plan, dated June 14, 2004, further defines the scope of services that includes a detailed media relations action plan that is "...focused on two core objectives: creating a true media presence for the ATPNJ and articulating the need to develop New Jersey's drug treatment provider workforce." The program recommended by the lobbying firm intends to accomplish several objectives including: generate support among public officials and 'key influencers' for ATPNJ; legislative/executive branch agenda; increase the ATPNJ's visibility in Trenton with the media and with the general public; and create and reinforce the image of the ATPNJ as the State's leading advocacy organization for drug treatment providers"

The agreement specifies that:

"By implementing this action plan, ATPNJ will effectively communicate with many different audiences, all of whom are important if the ATPNJ is to achieve its government affairs objectives..." The audiences are detailed to include government officials, legislators and regulators, and ATPNJ members.

Payments to the lobbying firm from ATP-MSN amounted to approximately \$41,000 from July 2004 through June 2006 and nearly \$45,000 from ATP during December 2003 through May 2006. Based on the scope of services to be rendered and detailed in the consulting agreements for ATP-MSN and ATP, both agreements appear to be for lobbying and public relations issues related to the mission and members of ATP. The evidence to substantiate that any of the services benefits the grant for workforce public relations and stigma reduction as noted in the grant application has not been provided. In the absence of documentation showing that the work performed by the lobbying firm was legitimately allowable under the grant, the payments are considered improperly paid with grant funds to ATP, the true beneficiary of the services and should be returned to DAS/DHS.

ATP-MSN, as a 501c(3) organization is prohibited from engaging in a substantial amount of legislative activity and is prohibited from engaging in political activity. The OIG/DHS review did not include a determination of ATP-MSN's compliance with Federal tax code.

V. Other Income and Impact on Program Revenue

Subpart K, Program Income, defines program income and prescribes the rules for reporting income earned from grant supported activities and the appropriate reporting of the program income.

Attachment B of the grant award provides the appropriate treatment of program income for the grant awards. ATP-MSN was required to utilize program income earned from other sources for the purposes and under the conditions of the grant agreement by adding these funds to the funds committed from the granting agency.

ATP-MSN requested and received duplicate funds from other sources for the program fully funded by DAS. ATP-MSN did not report approximately \$246,738 of program income received from other organizations for the same services rendered under the DAS grants and fully funded by DAS. This is a direct violation of DHSS and DHS rules and regulations.

The OIG/DHS review disclosed that DAS was not the sole source of funds provided to ATP-MSN and at least three other entities -- Governors Council for Alcohol and Drug Addiction (GCADA), Rowan University, and the Institute for Research, Education and Training in Addictions (IRETA) -- had contractual agreements for the same services that ATP-MSN was obligated to provide for the PDI and fully funded by DAS grants. Further investigation of the contractual agreements provided to OIG/DHS disclosed that GCADA is another State agency. The funding from Rowan has also been determined to be from State funds through a Memorandum of Agreement (MOA) issued by DAS. The contracts with IRETA and Rowan revealed that funding was provided to ATP-MSN for the service provided to DAS under the grants, therefore resulting in multiple funding to ATP-MSN. Since the services were performed once and reported to both entities, the grantee sought and received duplicate reimbursement of State funds.

During the performance of the sub-grants, ATP-MSN sought and received multiple reimbursements for the services rendered, which included duplicate State funding for some of these services and the evidence reviewed by OIG/DHS reveals that DAS knew that ATP-MSN received additional funding from Rowan University for other services. In a letter dated December 14, 2001 from DAS to ATP-MSN, DAS advised ATP-MSN of peer review services to be performed and informed them that funding would be issued from Rowan University. In another letter dated March 6, 2002 from DAS to Rowan University, DAS advised that ATP was selected to manage the Information Specialist project as part of the MOA. Evidence in DAS files indicates that the DAS staff responsible for sub-grant monitoring was aware of other funding provided to ATP-MSN. The DAS files do not include evidence to substantiate that appropriate review was made to ensure that reported sub-grant expenditures were appropriate.

DAS' knowledge of critical facts regarding ATP-MSN's other funding opportunities was not limited to performance under the sub-grants. Modification number 1 to Grant Number 03-680-ADA-N-0 reflects that the information specialist position is funded 50% from DAS grant funds and 50% from IRETA. In the application for Grant Number 04-680-ADA-N-0, ATP-MSN clearly disclosed that the information specialist position was to be jointly funded by DAS and IRETA. The source of funds expected to be received from IRETA was disclosed in the details

and supporting schedules submitted with the application. However, ATP-MSN did not report to DAS the income received from IRETA or Rowan University.

Although these DAS representatives under the sub-grants were not responsible or involved with monitoring the direct grants awarded by DAS, communication of critical facts were not shared with the DAS representative assigned to monitor and provide oversight of the direct grant awards. Those staff assigned to monitor the direct grants should have been aware of the other funding received by ATP-MSN at least as it pertains to the information specialist position funded by the grants they were responsible to monitor. A break-down in communication at DAS prevented critical knowledge from being passed to the new staff assigned to monitor the grant awards of ATP-MSN resulting in ATP-MSN's misuse and abuse of State grant funds.

VI. Related Party Transactions and Other Unsupported Costs

Subpart E, Standards for Grantee and Subgrantee Financial Management Systems requires detailed accounting records to support the financial expenditures. Subpart H, Allowable Costs, details the specific requirements and cost principles for determining allowable grant expenditures. DHSS utilizes the Federal cost principles for determining allowable costs which also specify the required accounting records and documentation necessary to support the grant expenditures. OMB Circular A-122 prescribes the Federal cost principles for a nonprofit organization. Allowable costs must be based on generally accepted sound business practices and arms length bargaining. Consideration should be given to whether the individuals acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, clients, the public and the Federal and State Governments.

Related Party Transactions

ATP Provider

The review disclosed ATP-MSN issued payments to related parties⁹ in excess of \$100,000 for consulting and professional services and reported these costs as grant expenditures. The grantee did not provide sufficient documentation to support the nature and purpose of the costs reported as grant expenditures or whether the transactions are based on arms length bargaining. Without sufficient supporting documentation to substantiate the necessity or allocability of the expense to ATP-MSN or the grants as required by the cost principles OIG/DHS considers the expenditures reported by ATP-MSN as unallowable. These costs are included in the unallowable costs categorized as expressly prohibited use of grant funds.

The grantee did not provide any documentation to substantiate the \$81,000 paid to WEBUS during the performance of the grants. During the review, OIG/DHS was advised by ATP-MSN that the amount represents payments made to a training instructor for PDI classes held at a Newark facility who was an ATP member. ATP-MSN failed to document that WEBUS was a provider of the training courses. For instance, ATP-MSN did not provide consultant contracts, agreements, invoices, tuition and student attendance records or other documentation to substantiate that these payments are for the purpose as asserted by ATP-MSN. The OIG/DHS review did not reveal any evidence that the alleged services provided by WEBUS were performed and are comparable to the services and fees charged by the other PDI training provider.

Board Member

Another related party transaction was observed in which limited supporting documentation was provided that represent approximately \$19,000. ATP-MSN representatives claimed that those payments were for consultant services provided by a former ATP board member. However,

⁹ Related parties include transactions with individuals or organizations that have an interest in ATP-MSN or ATP either because they or their affiliates are or were former board members or are employed by an agency that is a member of ATP.

the invoices provided to OIG/DHS for those payments do not include details including the date and nature of services rendered to make a determination of allowability and allocability to the grants. There are no formal contracts or agreements between the consultant and ATP-MSN to substantiate the required services and terms for the performance.

Other vendor payments for services rendered in relation to the peer review services cause concern for similar reasons. Some of the providers of the peer review services, while covered under a vague consultant contract, do not include specific invoices. Some of these consultants are former ATP Board members or employees at treatment providers who are ATP members. OIG/DHS observed that the funding received from DAS and Rowan University for the peer review services was significantly greater than the actual payments ATP-MSN issued to the consultants raising concerns about the grant funding process and lack of DAS review and evaluation of the budget data. The DAS files do not include evidence that supporting documentation was submitted.¹⁰

Other Unsupported Costs

Reimbursements made to the Executive Director

Supporting documentation for some of the reimbursements made to the Executive Director did not include the required details and receipts necessary to determine the nature and purpose of the expense. Because of the significant effort the Executive Director expended on non-grant and non-ATP-MSN activities, OIG/DHS determined that the expenditures reported by ATP-MSN are unallowable grant expenditures and not allocable to the grant in accordance with the grant terms and conditions.

As an example, evidence indicates that ATP “purchased” a Compaq computer in August 2002. The purchase resulted from the reimbursement ATP made to the Executive Director for \$2,002 in August 2002 for a Compaq computer he personally purchased and had delivered to his residence. ATP/ATP-MSN did not maintain inventory records including model numbers, serial numbers, location and current status of equipment purchases.

Several months after ATP reimbursed former Executive Director O’Brien under Grant Number 03-680-ADA-N-0, ATP-MSN reported to DAS a grant expense of \$2,398 for the purchase of a Compaq computer. The amount ATP-MSN reported to DAS for the computer is more than the amount ATP reimbursed to the Executive Director. However, ATP-MSN did not provide any invoice or shipping document to substantiate the purchase and receipt of this computer. OIG discovered the supporting documentation and justification for the computer purchased under the grant was an inter-company transaction ATP-MSN recorded on April 30, 2003 reflecting the purchase of a Compaq computer from ATP. The payment of \$2,398 was issued to ATP over a year later on June 17, 2004 after DAS has provided grant funds to ATP-MSN.

The evidence indicates that ATP-MSN used DAS grant funds to pay ATP for the Compaq computer which was meant for O’Brien’s personal use. ATP-MSN inventory records were not maintained and no other evidence was provided by ATP/ATP-MSN to substantiate that the

¹⁰ Prior to the grant awards to ATP-MSN, Rowan University had a Memorandum of Agreement (MOA) with DAS to provide professional and consultant services, including peer review services.

computer was ever actually used for DAS grant purposes or any other business purposes. Grant equipment was returned to DAS in June 2006. However, the inventory records from DAS do not reflect the return or receipt of any Compaq computers nor did the DAS files include any disposition instructions for a Compaq computer.

ATP-MSN Violates Grant Requirements regarding Inventory Records

ATP-MSN did not provide evidence of its compliance with pertinent property clauses of the grants. The Terms and Conditions for Administration of Grants, Subpart N, prescribe the rules and regulations regarding property acquisition, maintenance and disposition. Specifically, the grantee must maintain detailed property records that include a description of the property, a serial number or other identification number, the acquisition date and cost of the property. The final disposition data including the date of disposal and sale price of the property must be maintained. The terms also require that a physical inventory of the property be taken and the results reconciled with the property records at least once every two years.

OIG/DHS inquired of DAS staff regarding the disposition of this computer. Although DAS recovered extensive equipment and furnishings from ATP-MSN in June 2006, a Compaq computer was not received. Detailed asset inventory records, documentation to support the physical inventory and final disposition instructions have not been provided to OIG/DHS.

VII. Inadequate Grant Administration and Management

The sub-grant awards included provisions for student participation and cost sharing in the tuition expense for the PDI.

The notice of Grant Award includes Attachments A, B and C that incorporate the grant terms and conditions, approved operating budget, and program goals and objectives. Attachments A of the grant awards incorporate the DHSS Terms and Conditions for Administration of Grants. The terms and conditions include a compilation of all required Department policies and grant rules and regulations. The grantee is required to establish sound and effective business management systems to “assure proper stewardship of funds and activities.” Subpart E, Standards for Grantee and Subgrantee Financial Management Systems, prescribe the detailed standards and requirements for the grantee’s administration and management of the financial system, grant expenditures and financial reporting.

Attachment C of the grant awards and Subpart Q, Monitoring and Reporting Program Performance, detail the requirements for reporting of the grant activities accomplishments.

Attachments A and C of the grant awards and Subpart R, Financial Reporting, details the requirements for financial reporting.

The review revealed that DAS performed some level of monitoring of ATP-MSN’s performance as a sub-grantee under NCADD. Although the monitoring raised concerns about the number of students reportedly trained with PDI funds, the PDI funding was renewed under the primary grant awarded to ATP-MSN by DAS under Kane-Cavaiola’s administration. Shortly after the PDI funding was renewed, a new program manager at DAS was assigned to monitor ATP-MSN’s grants that, as explained in OIG’s November 20, 2006 report, performed no program oversight of ATP-MSN and impeded the fiscal monitoring.

ATP-MSN violated the terms of the sub-grant when it did not assess all students the tuition cost sharing outlined in the sub-grant. Based on the evidence provided, it does not appear that tuition cost sharing was consistently and equitably applied to the students in accordance with the cost sharing structure included in the sub-grant. ATP-MSN is unable to account for the actual receipt and deposit of tuition payments from the students.

ATP-MSN violated the grant terms when it failed to perform its obligation to accurately report the accomplishments of the PDI training. The grantee failed to maintain a financial management system that provided reliable and accurate reporting of the program and its financial performance under the grants. In addition, ATP-MSN failed to maintain adequate financial records and supporting documentation to substantiate its compliance with the terms and conditions of the grant. ATP-MSN was required but did not maintain a database of the students and the number of courses each attended. ATP-MSN did not properly maintain attendance records or records of students’ progress towards certification status. ATP-MSN submitted inaccurate and inconsistent grant progress performance reports misrepresenting the success of the PDI program.

Performance reports were required to be submitted at the completion of each quarter, within 10 working days after the end of each reporting period. Often these reports were submitted late and often only after DAS made requests for their submission. The reports were not submitted in the format required by the grant terms and conditions. Our review of the reports revealed inconsistencies in the data presented and raised concerns regarding the reliability of the information considering the lack of detailed student attendance and tracking records. The former Executive Director told OIG/DHS that he could not provide any further supporting documentation. Invoices from the training providers utilized for the PDI are either not available or do not provide detailed student information. O'Brien told OIG/DHS that he changed the administration of the agreement with the training provider from paying student tuition to payments for blocks of seats. Because of O'Brien's actions the class data is summarized by blocks of seats purchased and does not include specific student data. O'Brien did not inform DAS of his unilateral decision.

ATP-MSN did not adhere to all required reporting requirements of the grants and DAS failed to ensure that all reports were submitted. The reporting requirements of the grants included the Minimum Data Set (MDS), narrative grant progress report, year end programmatic report, year end evaluation report and fiscal reporting. The grantee was required to submit quarterly summary MDS reports within 10 working days of the end of the quarter. The grants further state that "Failure to submit quarterly MDS report for one quarter will constitute grant non-compliance and put program in jeopardy of funding being withheld." The grantee did not submit any MDS reports during the grant performance period.

The grants provide that "Grantees level of service will be reviewed on a quarterly basis based on Summary reports and site visits." The only formal evaluation and site visit conducted at ATP-MSN by DAS contained false and misleading information. Although the grantee failed to perform the grant activities and did not accurately report the accomplishments, the site visit report did not accurately report the grantee's unsatisfactory performance and awarded ATP-MSN the highest rating possible and offered no additional recommendations for corrective action. OIG/DHS did not include any recovery of grant funds for these program failures in the determination of grant overpayments.

VIII. Improper Budget Modifications and Revisions

Attachments A and C of the grant awards and DHSS rules and regulations require budget modifications and revisions for certain grant actions. Subpart M, Program Changes and Budget Revisions, prescribes the detailed instructions and guidance for grant changes. Certain changes are subject to the prior approval of DAS. Prior approval is defined as “documentation evidencing consent prior to incurring specific costs. Prior approval entails advance written permission from the Department’s authorized Grants Management Officer. Notes of a telephone conversation with a Program Management Officer would not constitute prior approval.”

Budget modifications generally involve the addition or deletion of grant objectives that includes the corresponding increase or decrease to the grant funds. Budget revisions are typically reallocations and transfers of the grant funds between budget line times.

ATP-MSN submitted inadequate budget modifications and improper budget revisions that provided duplicate funding for staff positions. The supporting details and schedules were not in all cases submitted in the required format required by the terms of the grant. The details provided to DAS often included incorrect information, mathematical errors and did not include sufficient written justification to explain the amounts and purpose for the budget revisions. DAS did not perform adequate review of the budget revision requests and did not obtain the required supporting documentation that is necessary to perform proper evaluation to ensure appropriate use of grant funds in accordance with DHS and DHSS grant regulations. These errors and weaknesses resulted in the approval of improper budget transfers for unallowable costs.

The deficiencies noted with the two budget revisions submitted under Grant Number 03-680-ADA-N-0 demonstrate ATP-MSN’s failure to follow the grant regulations. In addition, OIG/DHS’ review questioned the validity of the budget revisions which appears to be ATP-MSN’s way of reallocating surplus grant funds from approved program costs for providing the PDI training to cover the staff salaries for non-grant and non-ATP-MSN activities.

The three staff positions included in the original grant were funded part-time. The grantee failed to obtain prior written approval from DAS for the change in staff level to full time on the grant as required by the grant terms and conditions. The effect of the two budget revisions increased salaries more than \$70,000 that when compared to the initial grant funding including budget modifications represents an increase greater than 80%. While salaries were increasing, program costs were decreasing. This significant increase and diversion from program to administrative costs should have required a detailed evaluation by DAS to determine that the grant objectives were successfully being accomplished with appropriate use of grant funds.

DAS grant administration included a PMO and a GMO. The PMO, assigned to monitor ATP-MSN’s grants was appointed by Kane-Cavaiola and was responsible for the programmatic monitoring of the program and technical aspects of the grant. The GMO was responsible for the business and financial management. In the letters communicating the grant awards issued to ATP-MSN, the PMO and GMO were clearly designated and made known to ATP-MSN. Kane-Cavaiola segregated the program and fiscal functions that promoted a lack of

communication between the two responsibilities, contrary to DHSS and DHS grant rules and regulations. The review revealed that program decisions and changes were made and authorized by the PMO before and independent of the GMO's fiscal review and evaluation of the costs necessary to efficiently execute the change.

Section 4, of the grant agreement entitled, Program Revisions, states:

“Grantees must obtain prior, **written fiscal and programmatic approval** from the program officer whenever any of the following actions is anticipated:

- a. There are any changes in staff or revision of the objectives or activities associated with this grant (regardless of whether there is an associated budget revision requiring prior approval);
- b. There is a need to extend the period of availability of grant funds; and
- c. Changes in professional and bookkeeping staff relative to employment status and/or time spent on project.”

Based on the evidence and supporting documentation reviewed by OIG/DHS, ATP-MSN knowingly made several misrepresentations regarding the budget revision requests and failed to adhere to the rules and regulations for program and staffing changes. Significant changes were made to the grant budget without the prior written approval from DAS as required. The budget justifications were not submitted in accordance with the grant terms and conditions and should not have been approved by DAS. In fact, review and evaluation of the facts should have alerted DAS to the misrepresentation being made by the grantee and caused greater monitoring and oversight. The grantee's inadequate budgetary processes overstated the grant budget resulting in significant over funding. The grantee utilized this over funding to adjust the final grant budget to actual costs. At best, this conduct eliminated any responsibility of the grantee to properly manage and administer the performance of the grant within the financial parameters approved in the initial budget. Worse, it allowed ATP-MSN's misuse of grant funds. Had the grant regulations been enforced by DAS, the amount of unspent funds under Grant Number 03-680-ADA-N-0 would have been significantly greater than the \$16,821 calculated by the grantee.

ATP-MSN requested permission from the DAS fiscal staff to use the unspent grant funds on the newly awarded grants. DAS fiscal staff directed ATP-MSN to obtain approval from Kane-Cavaiola who authorized the use of the unspent funds on the follow-on grant. DAS' grant fiscal monitoring was ineffective in preventing the misuse of grant funds and unspent funds were always provided to ATP-MSN simply based on their request to Kane-Cavaiola without detailed review and evaluation of the justifications and final use of the funds.

Examples of Inadequate Budget Modifications

- Modification number 1 to Grant Number 03-680-ADA-N-0, approved August 11, 2003, revised the grant goals and objectives to include the nine month pro-rated share of the annual PDI which increased the grant staff by providing a Director of Training

for the PDI and an Information Specialist.¹¹ The documentation submitted with the grant modification provided the total salary for each position funded by the grant and the cost share amount to be contributed from IRETA for the Northeast Addiction Technology Transfer Center (NeATTC) Information Specialist position. The specific details of actual time or hours that the employees would dedicate to the grant activities were not included in the details of the budget modification other than to identify that the Information Specialist position was funded equally by DAS and IRETA.

- As noted in our November 20, 2006 report, ATP-MSN made a request for a copier in a budget modification when the copier had been approved in the original budget approved by DAS. The second request was also approved by DAS.

Example of Improper Budget Revisions

Budget Revision submitted during Grant Period of Performance

In January 2004, the grantee submitted a budget revision request that had the effect of increasing personnel costs (salaries and fringe benefits) by \$15,712, increasing office expenses by \$4,000, and decreasing other cost categories (program costs, travel, conference and meeting costs) by \$19,712. ATP-MSN did not prepare and submit the revision request with required details and sufficient justification to support the grant changes.

The justification letter submitted by ATP-MSN states:

“Cumulative expenditures show a projected shortfall in the areas of salary, fringe, and office, and excess in the areas of program, travel and equipment. I believe the joining together of all grants in July led to my failure to accurately reflect real costs in these items.”

The justification letter does not provide an explanation for the projected shortfall and excludes sufficient details of the circumstances that sufficiently explain the shortfall and necessitate the request. The Schedule A submitted with the budget revision is not accurate and includes mathematical errors. In addition, the salary details for the Director of Training for the PDI and the Information Specialist are not properly prorated to reflect the grant period of performance approved in the original grant budget and budget modifications.

The budget revision request was not properly evaluated or reviewed for approval by the DAS PMO assigned by Kane-Cavaiola in accordance with the grant regulations in a timely manner. ATP-MSN did not submit sufficient details required for DAS to perform an adequate evaluation to determine that the budget revision request is acceptable and in accordance with the terms and conditions of the grant as well as DHSS rules and regulations. However, the DAS files do not include evidence that any additional information or specific details were requested. Nonetheless, the budget revision was approved by the DAS PMO on May 18, 2004,

¹¹ This modification was prorated for nine months of grant performance since three months had been performed under sub-grant Number 03-452-ADA-N-0.

nearly four months after it was submitted by ATP-MSN and about two months after the grant ended.

Budget Revision submitted after Grant Period of Performance

The OIG/DHS review revealed that the second budget revision request was also not properly submitted by ATP-MSN. The budget revision request was not properly evaluated, reviewed or approved by DAS in accordance with the grant regulations. The request was submitted a month after the final report of grant expenditures was due under the terms of the grant agreement. Information provided to OIG/DHS from the grantee did not include evidence that the year-end programmatic and evaluation reports were submitted to DAS. DAS did not properly evaluate the merits of the budget revision and apparently did not consider the grantees performance and accomplishments of the grant goals and objectives.

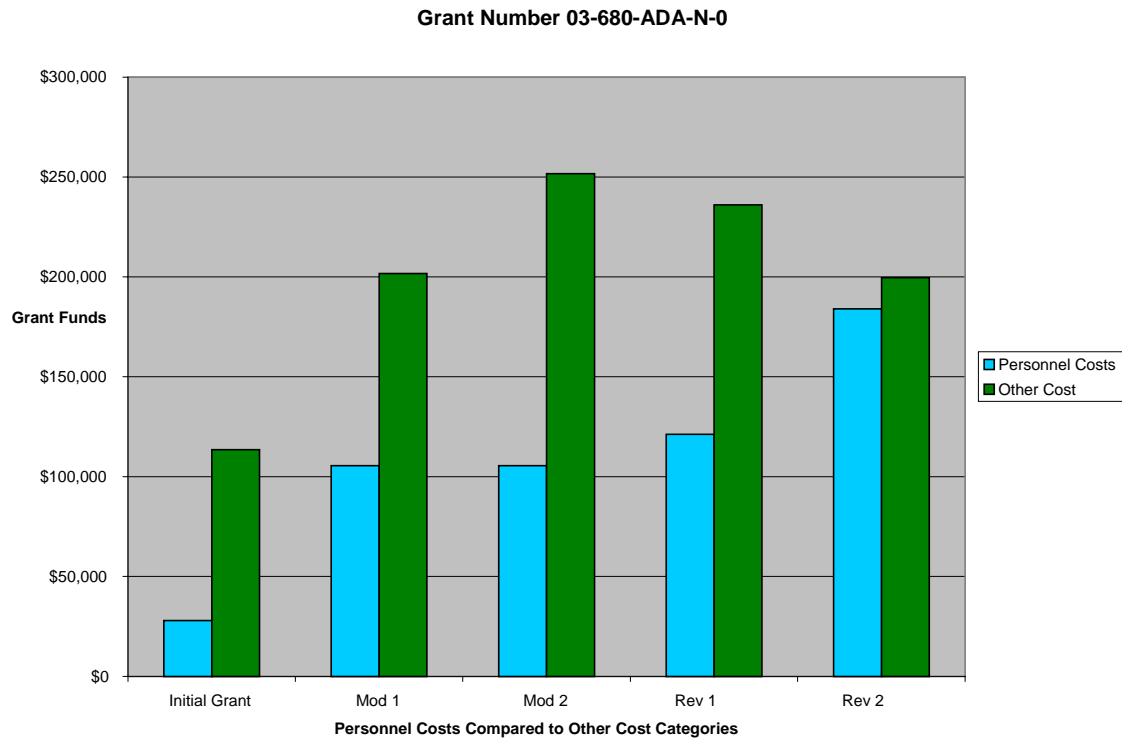
The budget revision, dated June 25, 2004, (almost three months after the grant period had ended) was submitted by ATP-MSN for Grant Number 03-680-ADA-N-0. DAS approved the revision July 28, 2004, (four months after the grant period had ended). In a letter dated June 25, 2004, then Executive Director O'Brien provided DAS with the justification for the Salaries and Fringe Benefits revision and stated "An additional \$62,680 is requested to cover two staff positions of Conference Coordinator and Information Specialist. The previous amounts budgeted of \$121,258 supported only the Executive Director Position. I will [refer] you to mine of 1-14-01, in which I state the confusion of adding all grants together led to my failure to accurately reflect real costs."

ATP-MSN Misrepresents Facts to DAS to Obtain Improper Grant Revision

ATP-MSN made serious misrepresentations to DAS in its June 25, 2004 letter. The January 2004 budget revision request adjusted total grant salaries to \$121,258 which includes the full time salaries for three positions, not just the Executive Director as stated in the June 2004 justification. The details, including the Schedule A submitted with the budget revision includes full time salaries for all three staff positions. However, the application and initial budget approved for the Conference Coordinator reflect the funding for a part time position. The Information Specialist position was added to the grant, through Modification number 1, as a part time position since this position was partially funded by a third party. The Schedule A does not reflect any funds from other sources or program income for the Information Specialist although revenue of \$23,000 was recorded on the books and records of ATP-MSN from the third party identified in the budget modification. ATP-MSN also received \$18,000 in funding from Rowan University for the Information Specialist position that was not disclosed as program income or funds from other sources.

The following chart summarizes the personnel costs (salaries and fringe benefits for ATP-MSN staff to administer the grant) for Grant Number 03-680-ADA-N-0 compared to the reported other cost categories (direct costs for grant performance including program costs, office expense and facility costs). In budget revision 2, the final budget revision, a slight increase to the personnel costs results in a decrease in the program costs required to perform the grant goals and objectives. The final budget revision included a significant transfer from the other

cost categories, including the grant program costs, to personnel costs which reflect that a greater amount of DAS funds were spent on ATP-MSN staff salaries for administration of the grant for the PDI training contrary to grant goals and objectives.



IX. Income Not Properly Reported in the Financial Records

Subpart E, Standards for Grantee and Subgrantee Financial Management Systems, prescribe the detailed standards and requirements for the grantee's administration and management of the financial system, grant expenditures and financial reporting. The regulations require accurate, current, and complete disclosure of the financial results of the grant. The grantee must maintain records which adequately identify the source and use of funds related to grant activities. Detailed records are required to be maintained for the grants and sub-grant awards, authorizations, obligations, assets, liabilities, expenditures and income.

As explained in Detailed Analysis, Issues and Observation section V earlier, during the process of reviewing ATP-MSN records, OIG/DHS discovered income from sources other than the direct grants from DAS that should have been reported to DAS as program income to offset the grant expenses. ATP-MSN did not provide sufficient details and documentation to support the nature and purpose of the income recorded in its books and records. As a result of the inadequate record keeping, OIG/DHS expanded the review and directly contacted each entity to determine and verify the nature of the contractual agreements, including the services provided, periods of performance and payments issued to ATP-MSN, and the impact to the DAS grants.

The evidence gathered from GCADA, Rowan University and IRETA revealed that duplicate payments totaling \$197,336 were sought and received by ATP-MSN during the performance of the DAS grants. Based on ATP-MSN's inadequate record keeping and incorrect posting of the deposits, OIG/DHS is unable to confirm that every payment from these entities was properly recorded in the books and records of ATP-MSN and deposited, in a timely manner. Specifically, there are four payments that total \$17,000 from IRETA that OIG/DHS has been unable to verify as properly received, recorded and deposited. According to the analysis prepared by the accountants and presented to DAS in a letter dated July 26, 2006, ATP-MSN's accountants have recognized a total of only \$149,439 in payments from these entities. Each of the entities provided OIG/DHS with detailed information regarding the payments issued to ATP-MSN. The amount reported by the accountants is \$47,897 less than the total payments reported by the entities to OIG/DHS.

ATP-MSN's improper and incomplete accounting and record keeping practices prevent OIG/DHS from determining if these payments were received and whether they were deposited into the correct account. The grantee did not maintain adequate accounting records or provide sufficient details for financial transactions including bank account activity related to revenue and deposits. Bank deposit slips did not always include the source of the deposits and purpose of the revenue. Subsidiary records including details of revenue and deposits were not accurately maintained and prevented OIG/DHS from verifying total income. The unreported program income of approximately \$297,000 discussed in earlier includes the \$197,336 reported to OIG/DHS by GCADA, Rowan University and IRETA as the payments made to ATP-MSN and is included in the OIG/DHS recovery to be obtained from ATP-MSN.

X. Excessive Salary Increases and Other Payroll Concerns

Subpart E, Standards for Grantee and Subgrantee Financial Management Systems requires detailed accounting records to support the financial expenditures. Subpart H, Allowable Costs, details the specific criteria for determining allowable grant expenditures. Costs must be necessary and reasonable for the proper and efficient administration of the award and be allocable under the appropriate cost principles. The Federal cost principles contained in OMB Circular A-122, include detailed guidance in the determination of allowable costs and reasonableness. A cost is reasonable if it “does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.”

ATP-MSN did not maintain adequate policies and procedures that established criteria and measurable goals for employee salary increases. The review disclosed excessive and unreasonable salary increases given to key management staff. The increases were not sufficiently detailed in the initial application and were often disguised as improper budget revisions as noted earlier in this report.

The Executive Director was hired in June 2001 to administer the PDI training. When hired, the salary was established at \$80,000 annually, \$66,000 of which was included in the budget for the sub-grant to be paid with DAS sub-grant funds. In the second sub-grant budget, his salary increased to \$70,000 from DAS funds, which on the surface represents a 6% increase from the prior sub-grant budget salary. However, the OIG/DHS review discovered that the total salary for the Executive Director had actually increased from \$80,000 in 2001 to \$95,000 in 2002, an annual increase of \$15,000, which represents an 18.75% increase. During the performance of the grants, other employees also received salary increases that appear excessive and unreasonable.

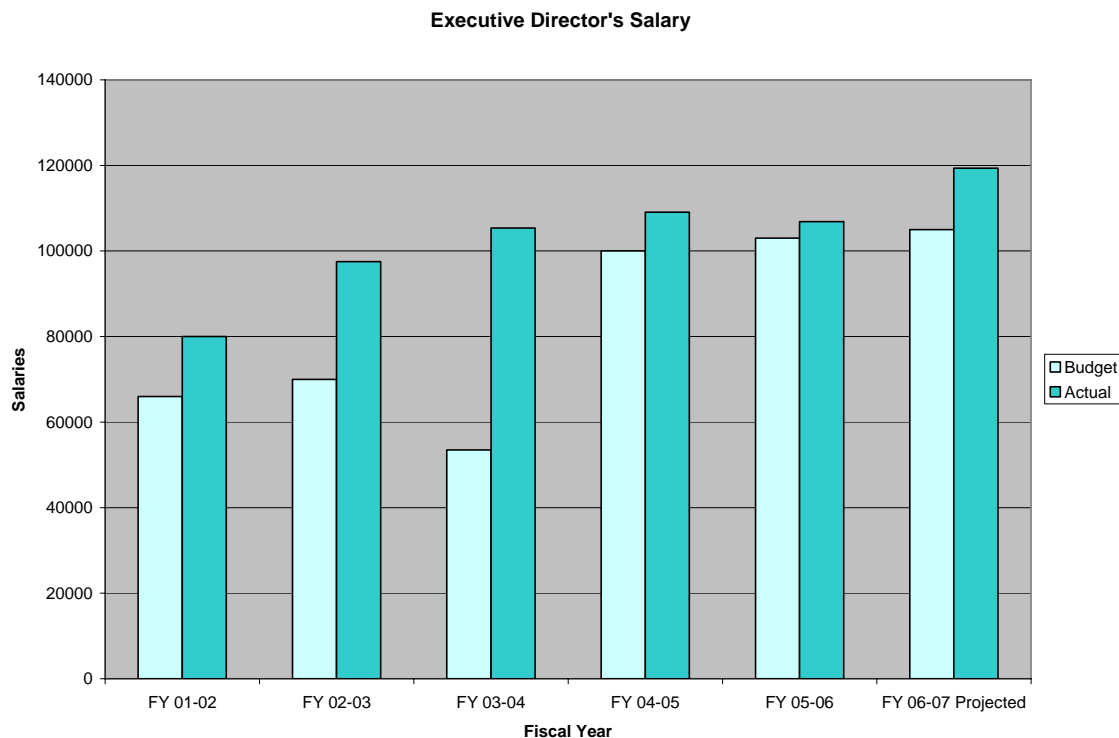
ATP-MSN did not provide full disclosure and details of the grant staff salaries to DAS which prevented adequate evaluation of the salary increases to determine that they were reasonable. In a letter dated July 22, 2002 from the Executive Director to the President of the ATP Board, it was reported that the total salary for the Executive Director would increase from \$80,000 to \$95,000 effective July 1, 2002. The letter includes the following salary details:

	Salary	Funding Source
Sub-Grant Activities	\$70,000	DAS – PDI Grant
ATP Activities	14,000	ATP – Conference Dues
ATP Activities	10,000	ATP – Memberships Fees
ATP Activities	2,500	ATP – ATTC Services
ATP Activities	<u>2,270</u>	ATP – Peer Review
Total Executive Director Salary	\$98,770	
Salary Reported to the Board	<u>\$95,000</u>	
Difference	\$ 3,770	

Although the OIG/DHS review of the letter and details disclosed mathematical errors,¹² the letter confirms that the Executive Director and Board knew that the grant duties did not encompass a full time position, even as far back as the sub-grant, since significant effort was funded by ATP and non-grant funds. The letter also shows knowledge that other entities were funding the services to be performed by the Executive Director.

The Executive Director earned reportable taxable wages of approximately \$108,000 (\$13,000 increase in salary from the last year under the sub-grant or about 13.6%) for the grant period April 2003 – March 2004 under Grant Number 03-680-ADA-N-0, the first direct grant to ATP-MSN. Although the budget for the Executive Director’s position was \$53,550, the entire salary paid to the Executive Director of approximately \$108,000 was charged to the grant in the final close-out report for the 2003 grant, an additional \$38,000 of DAS grant funds compared to the last year of the sub-grant.

Then Executive Director O’Brien used budget revisions to improperly transfer unspent funds from other budget line items to increase the funding for his salary expense without submitting and obtaining written approval from DAS. A summary of O’Brien’s actual salary compared to the initial approved grant budgets are reflected in the following chart.



The DAS Program Director never questioned or performed any detailed analysis of the salaries reported by ATP-MSN. Even when budget modifications and revisions were submitted that

¹² The details of the executive director’s salary included in the letter actually amount to a total salary of \$98,270 which is \$3,770 greater than the \$95,000.

included significant changes for employee salaries, apparently the DAS program director never questioned the salary increases of ATP-MSN.¹³ The Program Director told OIG that all budget amounts, increases and revisions were approved by Kane-Cavaola before she signed off on them.

Other concerns regarding ATP-MSN's salary review, bonus payments and payroll process were noted during the review. The April 6, 2005 ATP/ATP-MSN joint Board meeting minutes report that \$12,000 was granted to then Executive Director O'Brien as a performance bonus. The minutes listed several projects on which O'Brien worked for which the bonus was provided including the new headquarters and obtaining barrier-free grant funds from DAS. OIG/DHS was advised by the accountants for ATP-MSN that the payroll company incorrectly processed payroll for the Executive Director that resulted in over payments to the Executive Director in 2003 and 2004. In lieu of having the Executive Director reimburse the organization for the overpayments, the Board authorized the salary increase which in effect eliminated the debt owed by the Executive Director. The evidence indicates that the \$12,000 bonus was paid for with DAS grant funds and accountant's explanation is based on information provided by ATP/ATP-MSN directors since the supporting records and details are not sufficient to substantiate the explanation provided to OIG/DHS and there are no journal entries or memorandums to support the explanation, potential debt or its cancellation. The investigation did not reveal evidence that DAS was made aware of the bonus payment.

¹³ DAS, under the direction of the Assistant Commissioner who preceded Kane-Cavaola, had taken issue with egregious increases requested by other agencies in a former grant that had been awarded from DAS. In a letter dated September 7, 2001, DAS advised an agency that it was approving a budget modification related to an employee's salary increase. However, the letter further advised that they would not allow any additional salary increases for the next three years for this employee who was receiving a 13% increase in the budget revision.

XI. Inadequate Budgetary Process

Subpart E, Standards for Grantee and Subgrantee Financial Management Systems, prescribe the detailed standards and requirements for the grantee's administration and management of the financial system, grant expenditures and financial reporting.

Fringe Benefits

ATP-MSN failed to properly budget fringe benefit costs and included significant increases in subsequent grants without considering historical experience to substantiate that the amounts are reasonable and allowable. In addition, details supporting the fringe benefit rate included in the application were not consistent with the actual expenditures reported in the books and records or the supporting details provided to DAS. All increases were approved by the DAS program director assigned to the grants by Kane-Cavaiola.

The sub-grant budgets included 10% of salaries for fringe benefits. This rate increased on each follow-on grant so that the final budget rate for fringe benefits for Grant Number 06-680-ADA-N-0 was 32% of all salaries. In addition, increases to the fringe benefit rate were often submitted during budget modifications and revisions without adequate justification and sufficient explanation.

Our analysis and reconciliation of the accounting records and federal income tax returns disclosed that the financial records do not report the correct employer payroll tax expense for all years. In addition, the accounting records provided for 2001 are incomplete and primarily include bank statements and related documents. ATP-MSN did not provide payroll tax returns, thereby preventing the determination of the actual employer payroll tax expense and the fringe benefit rate. The payroll tax returns and employee W-2's provided for 2002-2006 were insufficient to allow the calculation of the employer payroll tax expense for the financial review of the grants and determination of allowable grant costs in accordance with the terms and conditions of the grants.

Although ATP-MSN's budgeted fringe benefit rate included in the grants was significantly greater than its actual experience, the costs submitted to DAS in the reports of grant expenditures were not based on the budget rates. The OIG/DHS adjustment and recovery for fringe benefits, approximately \$50,000, represents the share of fringe benefits for the allocated salaries for non-grant ATP-MSN activities deemed unallowable and unallocable to the DAS grants. As discussed earlier, the remainder is subject to DAS determination of whether the ATP-MSN staff salaries were expended for appropriate grant goals.

Leased Automobiles

The review disclosed concerns with the budgeted automobile and travel costs included in the grant budgets. In some grants, ATP-MSN estimated the travel costs based on the number of miles to be traveled reimbursed at the IRS approved rate rather than the lower actual costs of the leased vehicle payments. The grant applications do not include reasons or justifications for the necessity of the vehicles. In addition, the OIG/DHS review did not disclose evidence that

the automobile leases were executed in accordance with the procurement regulations as stipulated in the grant regulations.

Grant Number 04-680-ADA-N-0 budget details include \$4,320 travel costs based on the number of miles to be traveled reimbursed at \$.38 a mile, the then current IRS approved rate for reimbursement. The records of ATP revealed that an automobile lease was executed just after the grant was awarded. Then Executive Director O'Brien told OIG/DHS that he used the automobile as the joint Executive Director of ATP/ATP-MSN. In March 2005, a second automobile was leased by ATP-MSN and the lease down payment of \$3,783 was included in the reported grant expenditures.

Budget details for Grant Number 05-680-ADA-N-0 submitted by ATP-MSN specifies travel costs as "auto leases for the executive director and staff, insurance and operating costs" included in the Travel, Conferences, Meetings/Staff Training line item of the grant budget. Total budgeted costs are \$25,000 but specific details and supporting documentation were not submitted with the application. This represents a significant increase in costs from the prior grant that were not properly supported by experience. The amount attributable to O'Brien's personal use of the leased vehicles was not reported as income to him.

Even though the prior grant noted travel costs included automobile leases, the details for Grant Number 06-680-ADA-N-0 do not specify the actual costs associated with vehicle lease expense. Details submitted by ATP-MSN in the budget specify an estimated 52,027 miles to be traveled reimbursed at \$.485 per mile based on the then current IRS mileage rate or \$25,233. OIG/DHS has determined that the two vehicles were leased for approximately \$700 per month or \$8,400 annually. The grant budget was obviously overstated by at least \$16,833 (\$25,233 mileage reimbursement included in the budget less \$8,400 actual lease expense).

XII. Distribution of Barrier Free Funds

Subpart E, Standards for Grantee and Subgrantee Financial Management Systems, prescribe the detailed standards and requirements for the grantee's administration and management of the financial system, grant expenditures and financial reporting. Grantees must expend and account for grant funds in accordance with applicable Federal and State legislation. Grantees are required to establish procedures in accordance with applicable cost principles and grant regulations for determining the reasonableness, allowability and allocability of costs.

ATP-MSN did not properly distribute and monitor the DAS grant funds awarded to the treatment providers for the barrier-free and life safety projects. DAS also failed to adequately monitor and supervise the distribution and performance of the awards resulting in potential misuse of funds and abuse by the subgrantees.

DAS did not provide any guidance or direction on the distribution of the approximately \$3.8 million of barrier-free life safety funds authorized by Kane-Cavaola and included in Grant Numbers 05-680-ADA-N-0 and 06-680-ADA-N-0. The review revealed that ATP-MSN violated the minimal guidance it solicited and received from DAS as well as its own documented process for sub-grant administration.

Before Grant Number 05-680-ADA-N-0 was awarded, ATP-MSN had been advised that they would receive the \$2.8 million of barrier-free funds. Then Executive Director O'Brien sent a letter dated March 15, 2005 to the treatment providers alerting them to the facility improvement funding and advising providers of the parameters and requirements for requesting funds, the application review and award process, and the specific conditions that the awardees would be required to meet in order to obtain project funding.

Soon after the grant was awarded to ATP-MSN including the \$2.8 million funding, simply designated as "Renovations" in Attachment C of the grant, ATP-MSN's accountants solicited advice and guidance from DAS. Correspondence dated April 19, 2005 from the ATP-MSN's accountants to the GMO at DAS requested guidance on certain grant administration procedures and further requested "a timely response so that ATP-MSN can set up their procedures to adequately monitor the proposed projects." In a response from DAS dated April 22, 2005, the GMO advised the accountants that:

- A committee is developing a set of guidelines, goals and objectives.
- Projects must be funded, completed and have certificates of occupancy issued by March 31, 2006.
- The awardees are subject to the same requirements in the terms and conditions of the grant as ATP-MSN.
- Sealed bid procedures must be followed for all proposals exceeding \$25,000.
- The same bonding requirements are required of the general contractors.

Letters sent from ATP-MSN to the recipients forwarding the Notice of Contract Award detail the payment schedules and indicate that the first payment will represent 1/3 of the total award. The letters further advised that "Additional payments will be in accordance with the terms of

your award, up to 1/3 of the award when you complete 50% or more of the project(s) and the final 1/3 upon final approval. Final approval will be based on submission of final photos, Certificate of Completion, Certificate of Occupancy, and possibly an on-site inspection. Submission of a Report of Expenditures and Request for Reimbursement is required for each payment request.”

Despite ATP-MSN’s request and receipt of guidance from DAS and their own standards for project selection, OIG/DHS observed that ATP-MSN did not follow its self-imposed requirements and did not comply with the directions received in April 2005 from DAS.

Not only did ATP-MSN violate basic administrative procedures in the distribution of funds to the treatment providers, there is significant concern that ATP-MSN failed to ensure that the funds were distributed and used for projects meeting the scope and intent of the barrier-free and life safety initiative. Specific criteria for projects qualifying as barrier-free and life safety were not provided from DAS or developed by ATP-MSN. A cursory review of the project files provided to OIG/DHS from ATP-MSN revealed projects that may not qualify as barrier-free or life safety as intended by the DAS/DHS and the grant award. The lack of formal project qualifications may have improperly led to DAS funding ineligible projects based on the inadequate selection by ATP-MSN.

OIG is recommending that DAS assess the appropriateness of barrier-free funds distributed to treatment providers under Grant Numbers 05-680-ADA-N-0 and 06-680-ADA-N-0 to determine whether the funds were distributed for projects in accordance with the scope and objectives of the barrier-free and life safety capital improvement plan intended by the grant and are allowable in accordance with State and Federal grant regulations.

XIII. DAS Consultant Contract under ATP-MSN Grants

Grant expenditures were made for activities of a professional consultant providing services to DAS that do not appear to have any benefit for approved grant activities.

Consultant hired to perform services for DAS was included in the grant award to ATP-MSN. Although ATP-MSN was instructed by DAS to consider this consultant as ATP-MSN's consultant and perform monitoring and oversight of his work, ATP-MSN failed to do so. The evidence suggests that this conduct was undertaken by Kane-Cavaiola to avoid using the bidding process to obtain consultant services for DAS.

The consultant had an earlier agreement for services to DAS for the period July 1, 2003 through September 30, 2003. According to the terms of that documented agreement, the scope of services performed were operational/organizational areas within DAS and included recommendations for functional and/or operational improvement to foster greater integration and productivity. In addition, the consultant was required to assist another treatment provider, an ATP member, with implementation of consultant recommendations for programmatic improvement. The specific task noted is to assist in the implementation of the treatment provider's reorganization and "launching" of activities prescribed in the Strategic Plan. The agreement dated July 1, 2003 between DAS and the consultant indicates that payments would be issued through Rowan University. Contract terms specified the billing rate at \$200 an hour for a maximum of 50 hours per month. Although payment was to be issued from Rowan University, deliverables and status reports were to be submitted to DAS.

After Grant Number 04-680-ADA-N-0 was awarded to ATP-MSN, Modification number 3, dated September 13, 2004 and approved on October 18, 2004, was issued to provide \$100,000 funding for the consultant services. The draft consultant agreement indicated it was to be executed between DAS and the consultant; however, the executed contract was between ATP-MSN and the consultant. The modification was approved even after several DAS employees questioned the integrity of the consultant services and the benefit to the ATP-MSN grant. The consultant agreement defines the scope of services to:

- Develop recommendations to codify and classify services for long term residential programs
- Technical Assistance, as requested, to grantees at risk in financial and patient care areas; evaluate, prescribe and review a plan of correction
- Prepare an Annual Report for DAS to be available for the Department's budget process
- Develop recommendations regarding implementation of the Access to Recovery Grant Award
- Advise on opportunities to maximize additional money for DAS projects from the Center for Substance Abuse Treatment

Major tasks and deliverables include meeting and coordinating with the Assistant Commissioner of DAS, senior DAS staff and other designated staff. There is no mention of tasks or deliverables related to PDI or to ATP-MSN. An e-mail dated September 17, 2004 from DAS to the ATP-MSN Executive Director, advises ATP-MSN that in "order to maintain a true consultant relationship with ATP-MSN per IRS regulations:

1. The consultant is contracting with and responsible to you for project performance and completion.
2. He should be preparing reports and data for ATP-MSN which is in turn accountable to DAS per contract specifications.
3. He should be submitting invoices to ATP-MSN for reimbursement with services performed, time charges listed.

This e-mail also requested ATP-MSN to submit a justification for the budget modification and provided the specific language to be included.

ATP-MSN treated this consultant as a pass-through and advised OIG/DHS that it did not monitor or perform oversight of the consultant services provided performance of duties or work product, or provide supervision of the consultant. In an e-mail dated August 18, 2004 that appears to be drafted by then ATP-MSN Executive Director O'Brien to DAS, ATP-MSN informed DAS that this consultant was being paid under the grant because he could not get paid in a timely manner through Rowan University. He further stated that the consultant was providing services to the Division and not to ATP-MSN. Evidence reviewed by OIG/DHS suggests that the invoices for these services were submitted directly to DAS. After review, DAS forwarded the invoices to ATP-MSN with instruction to pay the consultant.

The consultant was paid over \$160,000 during June 2004 through January 2006. It should be noted that the consultant is now the Executive Director of another DAS funded treatment provider, also an ATP member. Detailed time records are not available to substantiate the total hours worked by the consultant or for which entity his services are being performed.

DAS did not provide adequate description of the services to be provided by the consultant. Budget Modification number 1 added \$60,000 for technical assistance and peer review. The details of the modification state that the consultant will provide peer review and support for a new licensee's program with identified problems and to disseminate best practices for new programming. The grantee anticipated providing 52 professional days per year. In a progress report for Grant Number 04-680-ADA-N-0, submitted to DAS by ATP-MSN, then Executive Director O'Brien advised that the consultant would perform work related to providing technical assistance to providers as requested.

It is unclear as to whether this was the same consultant referenced to in budget Modification number 3.

As noted in our November 20, 2006 report, the evidence indicates that the consultant was hired to work for DAS but that he was hired through ATP-MSN so that Kane-Cavaiola could avoid using the bidding process to hire him. The chief DAS fiscal officer became aware that the contract required Kane-Cavaiola's signature. After his staff raised concerns about the consultant contract and brought the issues to his attention, the chief DAS fiscal officer became aware that the contract with the consultant required Kane-Cavaiola's signature and he communicated his concern to Kane-Cavaiola's chief administrative officer that the contract appeared to be an effort to avoid the bidding process. He told OIG that the language in the contract was altered, and the consultant was hired through ATP-MSN. The evidence indicates

that the main change in the contract was that Kane-Cavaiola's signature was no longer required but that the consultant nonetheless performed services for DAS.

STATEMENT OF GRANT REVENUE AND EXPENDITURES

	<u>EXHIBIT</u>	<u>PAGE</u>
Sub-grant 02-452-ADA-N-0	A	70
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Grant 03-680-ADA-N-0	C	72
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DHSS, Division of Addiction Services

Sub-grant 02-452-ADA-N-0

STATEMENT OF SUB-GRANT REVENUE AND EXPENDITURES						Other Audit	
	Approved Sub-Grant Budget	Sub-Grantee's Reported Expenditures	Unallowable Costs	Unallowable / Unsupported Costs	Adjustments and Reclassifications	Questionable Grant Costs for DAS Assessment	
Budget Categories	Col A	Col B	Col C	Col D	Col E	= Col B - C - D - E	
Administrative Costs:							
Audit	\$ 3,500	\$ 3,500	\$ (3,500)	\$ -	\$ -	\$ -	
Salaries - Director of Training	66,000	66,000	(34,000)	-	6,538		38,538
Fringe Benefits	6,600	6,600	(3,400)	-	654		3,854
Phones	2,100	1,190	-	-	538		1,728
Mail	1,020	-	-	-	1,020		1,020
Supplies	-	427	(427)	-	-		-
Travel	3,400	2,602	-	(2,602)	-		-
Subtotal Administrative Cost	82,620	80,319	(41,327)	(2,602)	8,750		45,140
Program Costs:							
Space	45,600	-	-	-	-		-
Materials	5,400	-	-	-	-		-
Instructors	49,500	550	(550)	-	-		-
Tuition	-	95,215	(400)	(17,583)	-		77,232
ATP Conference Scholarships	-	23,900	-	(23,900)	-		-
Refreshments	2,880	-	-	-	-		-
Assessments for Learning Disabilities	2,500	-	-	-	-		-
Remediation	1,500	-	-	-	-		-
Incentive	10,000	-	-	-	-		-
Subtotal Program Costs	117,380	119,665	(950)	(41,483)	-		77,232
Total Sub-Grant Costs	\$ 200,000	\$ 199,984	\$ (42,277)	\$ (44,085)	\$ 8,750	\$	122,372
RECAP:							
Total Sub-Grant Funds Received						\$	200,000
Less: Questionable Sub-Grant Costs for DAS Assessment						\$	(122,372)
Plus: Sub-Grantee Program Income Received from Sub-Grant Activities						\$	44,650
Amount due to DHSS, Granting Agency						\$	122,278

DHSS, Division of Addiction Services

Sub-Grant 03-451-ADA-N-0

STATEMENT OF SUB-GRANT REVENUE AND EXPENDITURES

Budget Categories	Approved Sub-Grant Budget	Sub-Grantee's Reported Expenditures	Unallowable Costs	Unallowable / Unsupported Costs	Other Audit Adjustments and Reclassifications	Questionable Grant Costs for DAS Assessment
	Col A	Col B	Col C	Col D	Col E	= Col B - C - D - E
Administrative Costs:						
Audit	\$ 4,000	\$ 4,000	\$ (4,000)	\$ -	\$ -	\$ -
Salaries - Director of Training	70,000	70,000	(42,231)	-	15,145	42,914
Fringe Benefits	7,000	7,000	(4,223)	-	1,514	4,291
Communications	3,600	4,800	(3,334)	-	-	1,466
Travel	2,070	4,206	-	(4,206)	-	-
<i>Subtotal Administrative Cost</i>	86,670	90,006	(53,788)	(4,206)	16,659	48,671
Program Costs:						
Tuition	86,260	88,146	-	(39,146)	-	49,000
Student Conference	25,320	21,800	-	(21,800)	-	-
Assessments for Learning Disabilities	750	-	-	-	-	-
Remediation	1,000	-	-	-	-	-
<i>Subtotal Program Costs</i>	113,330	109,946	-	(60,946)	-	49,000
Total Sub-Grant Costs	\$ 200,000	\$ 199,952	\$ (53,788)	\$ (65,152)	\$ 16,659	\$ 97,671
RECAP:						
Total Sub-Grant Funds Received						\$ 200,000
Less: Sub-Grant Funds Included in Program Income of Grant 03-680-ADA-N-0						\$ (50,000)
Less: Questionable Sub-Grant Costs for DAS Assessment						\$ (97,671)
Plus: Sub-Grantee Program Income Received from Sub-Grant Activities						\$ 24,750
Total Amount due to DHSS, Granting Agency						\$ 77,079

Associated Treatment Providers Management Services Network, Inc. (ATP-MSN)

DHSS, Division of Addiction Services

Grant 03-680-ADA-N-0

STATEMENT OF GRANT REVENUE AND EXPENDITURES

Budget Categories	Approved Grant Budget	Grantee's Reported Expenditures	Unallowable Costs	Unallowable / Unsupported Costs	Other Audit Adjustments and Difference Books to ROE	Questionable Grant Costs for DAS Assessment
	Col A	Col B	Col C	Col D	Col E	= Col B - C - D - E
Personnel Cost:						
Salaries	\$ 164,867	\$ 164,867	\$ (72,551)	\$ (13,069)	\$ -	\$ 79,247
Fringe Benefits	19,071	19,071	(10,869)	-	(930)	7,272
<i>Subtotal</i>	183,938	183,938	(83,420)	(13,069)	(930)	86,519
Consultants / Professional Services	3,260	3,260	(3,260)	-	-	-
Other Cost Categories:						
Office Expense	10,896	10,896	(2,603)	(632)	-	7,661
Program Expense	177,855	177,855	(7,226)	(31,502)	-	139,127
Staff Training	-	-	-	-	-	-
Travel, Conferences	-	-	-	-	-	-
Equipment & Other	5,419	5,419	(5,419)	-	-	-
Facility	5,460	5,460	(2,730)	-	-	2,730
Sub-grants	-	-	-	-	-	-
<i>Subtotal</i>	199,630	199,630	(17,978)	(32,134)	-	149,518
Total Direct Costs	386,828	386,828	(104,658)	(45,203)	(930)	236,037
Indirect Costs	-	-	-	-	-	-
Plus: Adjustments for Additional Expenses	-	-	(2,500)	-	40,176	37,676
Total Cost	386,828	386,828	(107,158)	(45,203)	39,246	273,713
Less: Program Income	(93,828)	(110,649)	-	-	(149,605)	(260,254)
Net Total Cost	\$ 293,000	\$ 276,179	\$ (107,158)	\$ (45,203)	\$ (110,359)	\$ 13,459
RECAP:						
Total Grant Funds Received					\$	293,000
Less: Questionable Grant Costs for DAS Assessment					\$	(13,459)
Total Surplus Grant Funds					\$	279,541
Less: Previously Returned Unspent Funds					\$	(16,821)
Total Amount due to DHSS, Granting Agency					\$	262,720

DHS, Division of Addiction Services

Grant 04-680-ADA-N-0

STATEMENT OF GRANT REVENUE AND EXPENDITURES

Budget Categories	Approved Grant Budget	Grantee's Reported Expenditures	Unallowable Costs	Unallowable / Unsupported Costs	Other Audit Adjustments and Difference Books to ROE	Questionable Grant Costs for DAS Assessment
	Col A	Col B	Col C	Col D	Col E	= Col B - C - D - E
Personnel Cost:						
Salaries	\$ 212,500	\$ 168,785	\$ (23,068)	\$ -	\$ 1	\$ 145,718
Fringe Benefits	46,145	28,071	(12,934)	-	8,425	23,562
<i>Subtotal</i>	258,645	196,856	(36,002)	-	8,426	169,280
Consultants / Professional Services	204,600	183,877	(41,262)	-	-	142,615
Other Cost Categories:						
Office Expense	45,000	43,369	(10,982)	(6,495)	4	25,896
Program Expense	393,000	392,570	(29,605)	(56,006)	5,628	312,587
Staff Training	-	-	-	-	-	-
Travel, Conferences	25,916	11,734	(9,782)	(2,462)	199	(311)
Equipment & Other	101,796	100,914	(2,557)	(8,889)	-	89,468
Facility	70,000	61,230	(12,134)	-	1	49,097
Sub-grants	80,000	75,000	-	-	-	75,000
<i>Subtotal</i>	715,712	684,817	(65,060)	(73,852)	5,832	551,737
Total Direct Costs	1,178,957	1,065,550	(142,324)	(73,852)	14,258	863,632
Indirect Costs	-	-	-	-	-	-
Plus Adjustments for Additional Expenses	-	-	-	-	10,738	10,738
Total Cost	1,178,957	1,065,550	(142,324)	(73,852)	24,996	874,370
Less Program Income	(85,000)	(93,769)	-	-	(48,714)	(142,483)
Net Total Cost	\$ 1,093,957	\$ 971,781	\$ (142,324)	\$ (73,852)	\$ (23,718)	\$ 731,887
RECAP:						
Total Grant Funds Received					\$	1,093,957
Less: Questionable Grant Costs for DAS Assessment					\$	(731,887)
Total Surplus Grant Funds					\$	362,070
Less: Previously Returned Unspent Funds					\$	(122,176)
Total Amount due to DHS, Granting Agency					\$	239,894

DHS, Division of Addiction Services

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STATEMENT OF GRANT REVENUE AND EXPENDITURES

Budget Categories	Approved Grant Budget	Grantee's Reported Expenditures	Unallowable Costs	Unallowable / Unsupported Costs	Other Audit Adjustments and Difference Books to ROE	Questionable Grant Costs for DAS Assessment
	Col A	Col B	Col C	Col D	Col E	= Col B - C - D - E
Personnel Cost:						
Salaries	\$ 428,588	\$ 382,806	\$ (86,168)	\$ -	\$ 13,469	\$ 310,107
Fringe Benefits	115,495	95,984	(19,333)	-	(7,072)	69,579
<i>Subtotal</i>	544,083	478,790	(105,501)	-	6,397	379,686
Consultants / Professional Services	231,417	166,513	(16,887)	(12,800)	(200)	136,626
Other Cost Categories:						
Office Expense	31,500	50,057	(12,907)	(4,559)	1	32,592
Program Expense	3,217,658	2,673,612	(96,886)	(26,373)	(75)	2,550,278
Staff Training	-	-	-	-	-	-
Travel, Conferences	25,778	22,160	(17,559)	(4,745)	-	(144)
Equipment & Other	54,183	30,402	(8,741)	(2,114)	-	19,547
Facility	120,000	120,605	(30,151)	-	-	90,454
Sub-grants	80,000	87,306	-	-	-	87,306
<i>Subtotal</i>	3,529,119	2,984,142	(166,244)	(37,791)	(74)	2,780,033
Total Direct Costs	4,304,619	3,629,445	(288,632)	(50,591)	6,123	3,296,345
Indirect Costs	-	-	-	-	-	-
Plus Adjustments for Additional Expenses	-	-	-	-	1,170	1,170
Total Costs	4,304,619	3,629,445	(288,632)	(50,591)	7,293	3,297,515
Less Program Income	(130,000)	(230,521)	-	-	(22,345)	(252,866)
Net Total Cost	\$ 4,174,619	\$ 3,398,924	\$ (288,632)	\$ (50,591)	\$ (15,052)	\$ 3,044,649
RECAP:						
Total Grant Funds Received					\$	4,174,619
Less: Questionable Grant Costs for DAS Assessment					\$	(3,044,649)
Total Amount due to DHS, Granting Agency					\$	1,129,970

DHS, Division of Addiction Services

Grant 06-680-ADA-N-0

STATEMENT OF GRANT REVENUE AND EXPENDITURES

Budget Categories	Approved Grant Budget	Grantee's Reported Expenditures	Unallowable Costs	Unallowable / Unsupported Costs	Other Audit Adjustments and Difference Books to ROE	Questionable Grant Costs for DAS Assessment
	Col A	Col B	Col C	Col D	Col E	= Col B - C - D - E
Personnel Cost:						
Salaries	\$ 503,500	\$ 91,796	\$ (21,144)	\$ -	\$ 16,153	\$ 86,805
Fringe Benefits	161,120	22,397	(3,840)	-	(2,792)	15,765
<i>Subtotal</i>	664,620	114,193	(24,984)	-	13,361	102,570
Consultants / Professional Services	99,000	57,741	(9,335)	-	1,000	49,406
Other Cost Categories:						
Office Expense	45,000	11,558	(4,082)	(1,021)	38	6,493
Program Expense	1,671,489	420,562	(25,080)	(8,223)		387,259
Staff Training	10,000	-	-	-	-	-
Travel, Conferences	32,233	11,194	(14,644)	-	125	(3,325)
Equipment & Other	25,000	-	-	-	-	-
Facility	140,000	30,054	(7,513)	-	-	22,541
Sub-grants	85,741	(1,858)	-	-	-	(1,858)
<i>Subtotal</i>	2,009,463	471,510	(51,320)	(9,244)	163	411,109
Total Direct Costs	2,773,083	643,444	(85,639)	(9,244)	14,524	563,085
Indirect Costs	-	-	-	-	-	-
Total Cost	2,773,083	643,444	(85,639)	(9,244)	14,524	563,085
Less Program Income	(25,000)	(123,482)	-	-	(6,674)	(130,156)
Net Total Cost	2,748,083	519,962	(85,639)	(9,244)	7,850	432,929
RECAP:						
Total Grant Funds Received (Two payments received prior to the grant termination)					\$	367,103
Less: Questionable Grant Costs for DAS Assessment					\$	(432,929)
Total Amount due to ATP-MSN					\$	(65,826)