DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

February 26, 2002

A-01-01-02506

Mr. Ronald L. Phillips, President
Coastal Enterprises, Inc.
36 Water Street
Wiscasset, ME 04578

Dear Mr. Phillips:

Enclosed are two copies of the final report of the results of our review of the Urban and Rural Development grant administered by the Coastal Enterprises, Inc. (CEI) covering the period September 30, 1997 through September 29, 2000.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services reports are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.) To facilitate identification, please refer to Common Identification Number A-01-01-02506 in all correspondence relating to this report.

Sincerely yours,

Michael J. Armstrong

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Audit Liaison Officer
Administration for Children and Families
U. S. Department of Health and Human Services
Division of Financial Integrity
Room 702 Aerospace Building
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF URBAN AND RURAL ECONOMIC DEVELOPMENT GRANTS ADMINISTERED BY THE COASTAL ENTERPRISES, INC. SEPTEMBER 30,1997 THROUGH SEPTEMBER 29,2000

JANET REHNQUIST
Inspector General

FEBRUARY 2002
A-01-01-02506

Office of Inspector General

http://oig.hhs.gov

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

Office of Evaluation and Inspections

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

Office of Investigations

The OIG's Office of Investigations (01) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of 0 1 lead to criminal convictions, administrative sanctions, or civil monetary penalties. The 0 1 also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

EXECUTIVE SUMMARY

BACKGROUND

The Urban and Rural Economic Development Program is a discretionary grant program funded under the Community Development Block Grant Program, Catalog of Federal Domestic Assistance Number 93.570. The major program objectives of the Community Development Block Grant are to support program activities of national or regional significance to alleviate the causes of poverty in distressed communities. This program had no statutory formula or matching requirements. Grantees must submit annual and semiannual financial status reports and biannual progress reports, and must provide for audits by independent public accountants.

Coastal Enterprises, Inc. (CEI) received Grant No. 90-EE-0309 for $450,000 for the period September 30, 1997 through September 29, 2000 to invest in Cascade Loden Mills, a manufacturing company that would provide jobs to low-income individuals in an economically depressed rural area in the state of Maine. When CEI learned that the company went out of business in April 1998, CEI searched for a replacement and, in June 1999, requested that the Administration for Children and Families (ACF) accept Kent, Inc. (Kent) to fulfill the grant objectives. On May 18, 2000, ACF approved reprogramming of the grant funds for CEI's investments in Kent, Inc. ($200,000 in a 10 year note plus $200,000 in a purchase of 5 year callable preferred stock). The remaining $50,000 was to be used by CEI to administer the grant.

OBJECTIVES

The objectives of our audit were to assess the grantee's (1) performance in achieving project objectives and complying with the terms and conditions of the grant award; and (2) accountability for Federal funds.

SUMMARY OF FINDINGS

We determined that CEI properly accounted for Federal funds. We also found that CEI has not achieved the grant's employment goals by the end of the grant period (60 new jobs, with 45 targeted to low income people). The main cause of this was that Cascade Loden Mills, the company CEI originally cited in its grant proposal, closed down about six months after the beginning of the grant period. By the time a replacement was found and approved by ACF, only 4.5 months remained to the original grant period. In that time, Kent, the replacement company hired 18 employees, with 14 qualifying as low income.

CEI staff indicated Kent has not met the hiring goals within the time frame of the grant because:

- The closure of the original manufacturing company and finding a replacement company effectively took about 20 months.

- It took an additional 11 months between CEI's request for a change in manufacturing companies and the formal approval by ACF. This left only 4.5 months before the end of the three-year grant period.

- Low-income people, for reasons unknown, would not apply for the Kent jobs even though the area was economically distressed, training was offered, and the pay was competitive. Eight low-income people even completed training programs provided by Kent, but then chose not to apply for employment. Despite trying different recruiting techniques and sources, CEI and Kent never identified why they were unable to hire more low-income people. Instead, Kent had to employ college students during summer breaks to fill some of its production goals.

RECOMMENDATION

Even though the grant ended, we recommend that CEI ensure that the target population of low-income employees continues to be served. CEI should continue to work with Kent, the contracted company, to ensure the terms of its agreements are met.

AUDITEE COMMENTS

CEI's response to the draft report, dated February 15, 2002, is attached to this report. (See APPENDIX.) The response basically concurs with our findings and recommendations. CEI indicated that it will continue to coordinate, track and monitor employment opportunities and activities generated by Kent with community based education/training organizations providing services for low-income people throughout the duration of CEI's loan/investment in this company. CEI also notes that, since the close-out report of May 2001, Kent has hired 65 low-income people in addition to the 14 low-income individuals hired during the grant period. Overall, Kent exceeded the grant requirements of hiring 45 low-income individuals.

TABLE OF CONTENTS

INTRODUCTION

Background

The Urban and Rural Economic Development Program is a discretionary grant program funded under the Community Development Block Grant Program, Catalog of Federal Domestic Assistance Number 93.570. The major program objectives of the Community Development Block Grant are to support program activities of national or regional significance to alleviate the causes of poverty in distressed communities, which promote:

- full-time permanent jobs for poverty level project area residents;
- income and/or ownership opportunities for low-income community members;
- a better standard of living for rural low-income individuals in terms of water and waste-water treatment; and
- national or regional programs designed to provide character building, sports and physical fitness activities for low-income youth.

To qualify for grant funding, a project must address the needs of a specific segment of low-income individuals or families. The Administration for Children and Families (ACF) is responsible for awarding grant funds and monitoring results. In Fiscal Year (FY) 1998, it awarded about $48 million to 134 grantees. The range of financial assistance was from $75,000 to $500,000. ACF awarded a grant (Grant No. 90-EE-0309) of $450,000 to Coastal Enterprises, Inc. (CEI) for the period September 30, 1997 through September 29, 2000 to create new jobs in an economically distressed rural area in the State of Maine.

CEI is a private, nonprofit community development corporation. The mission of the CEI is to help people and communities, especially those with low incomes, reach an equitable standard of living, working and learning in harmony with the natural environment. During August 2000, CEI provided $400,000 of the $450,000 to Kent, Inc. (Kent), a maker of children's clothing in the following two investment transactions:

- a $200,000 promissory note (10 years) and
- a $200,000 purchase of preferred stock (to be redeemed in 5 years unless called by Kent).

The remaining $50,000 was to be used by CEI to administer the grant. The terms of this grant did not include a statutory formula or matching requirements. However, CEI was required to submit annual and semiannual financial status reports and biannual progress reports and to provide for audits by independent public accountants.

Objectives, Scope And Methodology

Objectives

The objectives of our audit were to assess the grantee's (1) performance in achieving project objectives and complying with the terms and conditions of the grant award; and (2) accountability for Federal funds.

Scope and Methodology

Our review was made in accordance with generally accepted government auditing standards.

We observed and reviewed controls used to meet the performance measures of the grant and for fiscal management. Specifically, we obtained and reviewed CEI's Social Information System (SIS), employment training agreement (ETAG), employment reports, Targeted Opportunities certification forms, agreements and contracts, case records, minutes of staff meetings, internal reports, performance reports, fiscal reports, independent auditor reports, minutes of Board of Director Meetings, fiscal and cash withdrawal policies and procedures, corporate Annual Reports, semiannual financial status reports, semiannual program reports, and the documentation related to the loan and stock purchase.

We conducted our on site review at the offices of the CEI in Wiscasset, Maine from June 18, 2001 through June 22, 2001. We held an exit conference with CEI officials on June 22, 2001, and received their comments to our draft report on February 15, 2002.

FINDINGS AND RECOMMENDATIONS

We determined that CEI properly accounted for Federal funds. We also found that CEI has not achieved the grant's employment goals by the end of the grant period (60 new jobs, with 45 targeted to low income people). The main cause of this was that Cascade Loden Mills, the company CEI originally cited in its grant proposal, closed down about six months after the beginning of the grant period. By the time a replacement was found and approved by ACF, only 4.5 months remained to the original grant period. In that time, Kent, the replacement company hired 18 employees, with 14 qualifying as low income.

Grant Employment Goals Have Not Been Met

The grant to CEI was originally intended to run from September 30, 1997 through September 29, 2000. CEI was to invest $400,000 in Cascade Loden Mills, a manufacturing company in an economically distressed area of the State of Maine. However, the company closed down and the investments were not made. On June 18, 1999, CEI asked ACF to reprogram the grant funding to allow investments in Kent, which operated in a different economically distressed area of the State of Maine. On May 18, 2000, ACF approved the grant revision, with the specific grant provision that Kent agrees to create 60 new jobs. CEI completed the investments in August 2000, adding a requirement that Kent target 45 of the 60 new jobs to economically disadvantaged people. By the time ACF approved the grant revision, only 4.5 months remained before the end of the grant period.

Our review of program operations noted that CEI and Kent did not meet the hiring goal of 60 new employees within the time frame of the grant. While Kent may have missed opportunities to place low-income individuals in new jobs, it still managed to hire 18 new employees, including 14 new low-income employees, within the 4.5 months that remained in the grant period. Further, CEI records showed that Kent hired 6 additional low-income people in the months after the grant expired

CEI staff indicated that Kent made a substantial effort to recruit and train low-income employees, and stated that hiring goals within the time frame of the grant were not met because:

- The closure of the original manufacturing company and finding a replacement company effectively took about 20 months.

- It took an additional 11 months between CEI's request for a change in manufacturing companies and the formal approval by ACF. This left only 4.5 months before the end of the three-year grant period.

- Low-income people, for reasons unknown, would not apply for the Kent jobs even though the area was economically distressed, training was offered, and the pay was competitive. Eight low-income people even completed training programs provided by Kent, but then chose not to apply for employment. Despite trying different recruiting techniques and sources, CEI and Kent never identified why they were unable to hire more low-income people. Instead, Kent had to employ college students during summer breaks to fill some of its production goals.

RECOMMENDATION

Even though the grant ended, we recommend that CEI ensure that the target population of low-income employees continues to be served. CEI should continue to work with Kent, the contracted company, to ensure the terms of its agreements are met.

AUDITEE COMMENTS

CEI's response to the draft report, dated February 15, 2002, is attached to this report. (See APPENDIX.) The response basically concurs with our findings and recommendations. CEI indicated that it will continue to coordinate, track and monitor employment opportunities and activities generated by Kent with community based education/training organizations providing services for low-income people throughout the duration of CEI's loan/investment in this company. CEI also notes that, since the close-out report of May 2001, Kent has hired 65 low-income people in addition to the 14 low-income individuals hired during the grant period. Overall, Kent exceeded the grant requirements of hiring 45 low-income individuals.

APPENDIX

CEI Coastal Enterprises Inc.

36 Water Street
P.O. Box 268
Wiscasset, Maine
04578-0268
Telephone
207/882-7552
Toll Free
877/340-2649
Facsimile
207/882-7308
E-mail
cei@ceimaine.org
Website
www.ceimaine.org

RECEIVED
02 FEB 19 AM 11:
REGION I

February 15, 2002

Mr. Michael J. Armstrong, Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services, Region I
John F. Kennedy Federal Building
Boston, MA 02203

Re: CIN: A-01-01-0256

Dear Mr. Armstrong:

Thank you for sharing the draft report of the results of your review of Coastal Enterprises, Inc.'s (CEI) Department of Health and Human Services, Office of Community Services Urban and Rural Development grant covering the period September 30, 1997 through September 29, 2000. This letter will serve as our formal response to your report and the recommendation that "CEI ensure that the target population of low income employees continues to be served. CEI should continue to work with Kent, the contracted company, to ensure the terms of the agreement are met."

As you will note in the attached CEI Employment Training Agreement with Kent, Inc., the Company agreed to hire 45 HHS eligible people and "maintain seventy-five (75%)" of "employment positions created or arising from the date of CEI's investment and for as long as CEI's investment exists." CEI's general policy and practice ensures access to jobs for low-income people with all job-generating companies who have signed onto an Employment Training Agreement with CEI. Such is the case with Kent, Inc. and we will continue to coordinate, track and monitor employment opportunities and activities generated by Kent, Inc., with community based education/training organizations providing services for low-income people throughout the duration of CEI's loan/investment in this company.

Since the grant close-out report of May 2001, Kent, Inc. has hired an additional 65 low income people meeting HHS low-income guidelines including an additional 14 TANF recipients. As of February 15, 2002, the company has hired a total of 79 low income including 21 TANF recipients. These numbers far exceed the original targets as outlined under the HHS/OCS Urban and Rural Development grant. Additionally, the company has also hired 105 people meeting HUD low- income criteria.

I believe this addresses the recommendation set forth in the HHS Audit report.

Sincerely,

Ronald L. Phillips

Ronald L. Phillips, President

Enc: 1

Celebrating 22 Years of Creating Opportunities for Maine People

A private, nonprofit community development corporation founded in 1977 to provide financial and technical assistance to the people, businesses and communities of Maine.