



N.E.O.N.

Norwalk Economic Opportunity Now, Inc.

98 SOUTH MAIN STREET, NORWALK, CT 06854-3126

Report Number A-01-1321544

September 27, 2013

HHS Resolution Official

Regional Grants Officer

Office of Grants Management

Administration for Children and Families, HHS

JFK Federal Building, Room 2000

Boston, MA 02203-0001

Subject: National External Audit Review Center Alert – Norwalk Economic Opportunity Now, Inc., for the period January 1, 2011 through December 31, 2011 (Report Number A-01-13-21544 Adverse opinion on Major Program Compliance)

Dear HHS Resolution Official:

In response to Mr. Patrick Cogley's correspondence memo dated July 19, 2013 addressed to the attached distribution list.

The review of our audit for the period ending December 31, 2011 identified the following conditions be forwarded to the attention of all parties of the attached distribution list.

The auditors issued an adverse opinion for major programs of Norwalk Economic Opportunity Now, Inc., for December 31, 2011. This action was stated to be due to our organization not complying with requirements regarding allowable costs and allowable activities.

The following was also noted:

- An Audit in 2011 by OIG determined that due to inadequate documentation, \$406,434 in costs claimed by the organization were not allowable. Also, an audit by the State for the period July 2009 through March 31, 2011 determined that \$227,981 in cost claimed by the organization were also not allowable due to lack of documentation. The auditor addressed these issues in findings 2011-7 and 2011-9.

NEON Response

Please refer to (N.E.O.N.) Norwalk Economic Opportunity Now, Inc., Corrective Action Plan dated May 9, 2013 page 5, 6, 7 and 8 attached hereto.

- The organizations expenses exceeded total revenue and support by \$1,144,255 on December 31, 2011.

NEON Response

At the time of the December 31, 2011 audit, Norwalk Economic Opportunity Now, Inc., was proceeding through a merger with CTE. During this process, Norwalk Economic Opportunity Now, Inc., incurred additional expenses. The merger between Norwalk Economic Opportunity Now, Inc., and CTE became final as of September 28, 2012. Therefore, there are two separate audits which have been conducted as follows:

- Norwalk Economic Opportunity Now, Inc., 2011 audit completed by Cohn Reznick and CTE 2011 audit completed by Blum Shapiro. Norwalk Economic Opportunity Now, Inc., became responsible for CTE expenses which are shown on our books and revenue received shows on CTE's books. (Please see CTE 2011 & 2012 audits attached hereto).
- The City of Norwalk removed \$1.5 million from Norwalk Economic Opportunity Now, Inc., after receiving and reviewing the OIG report.

Additional Information

- NEON's status of Head Start disallowance appeal detailed below as follows:

I. Background

From April 28, 2011 through October 21, 2011 the Office of the Inspector General ("OIG") conducted an audit of NEON. The objective of the audit was to determine whether costs claimed by NEON were allowable, allocable, reasonable, and adequately documented under the terms of the Head Start Act, P.L. No. 110-134 and the American Recovery and Reinvestment Act, P.L. No. 11-4.

OIG reviewed costs claimed by NEON for the period of January 1, 2009 through March 31, 2011. Encompassing calendar years 2009, 2010, and the first quarter of 2011, OIG found that NEON claimed \$383,312 in unallowable indirect expenses against its Head Start grant. Additionally, OIG found that NEON claimed \$23,122 in unallowable expenses against grant funds it received pursuant to the American Recovery and Reinvestment Act.

On March 26, 2013 the Department of Health and Human Services, Administration for Children and Families ("ACF"), adopted OIG's findings and found that of the \$3,533,434 of Head Start costs claimed, that NEON claimed costs of \$406,434 that were not allowable, allocable, reasonable, and adequately documented under the terms of the Head Start and Recovery Act grants. On July 16, 2013, ACF issued its Notice of Disallowance, demanding that NEON refund \$406,434.

On April 23, 2012, NEON appealed ACF's disallowance. The basis for the Appeal was that, contrary to ACF's findings, the majority of the disallowed funds were in fact approved direct allocations for administrative salaries and expenses. Specifically, NEON indisputably utilized the disallowed funds for administrative salaries and expenses that directly benefited the Federal Head Start grant. On May 2, 2012, the Department of Health and Human Services, Departmental Appeals Board (the "DAB") filed its Acknowledgement of NEON's Appeal.

NEON and ACF subsequently agreed to enter into mediation, which placed the appeals process into abeyance. The purpose of the mediation was to reconcile alleged deficiencies in NEON's recordkeeping in hopes that the matter could be resolved. The mediation occurred on October 11, 2012, at ACF's office in Boston, Massachusetts. Although positive, in the end the parties agreed to continue settlement discussions and proceed with the appeals process.

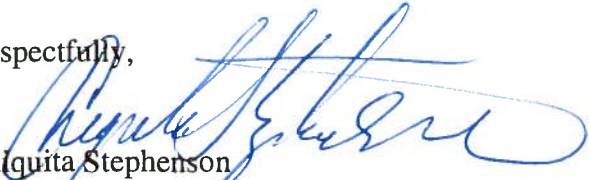
On April 4, 2013, NEON filed its Appeal Brief, requesting the DAB reduce ACF's disallowance by \$363,362.69 to reflect the approved direct expenses. On May 20, 2013, ACF filed its Reply Brief, which called into question the adequacy of NEON's supporting source documentation. On July 1, 2013 NEON filed its Reply Brief with supplemental documentation. On July 16, 2013, the DAB issued an Order to Develop the Record.

In sum, the majority of the disallowance is the result of what ACF characterizes as inadequate recordkeeping. In addition, ACF alleges that NEON utilized an unapproved indirect allocation method. ACF does not contest the fact that NEON administers a successful Federal Head Start program.

II. Status of Appeal

NEON is currently in the process of replying to the DAB's July 16, 2013 Order to Develop the Record, which is due on September 6, 2013. After receipt of NEON's response, the DAB will issue its official ruling.

Respectfully,


Chiquita Stephenson
Acting President/CEO

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