

IN THE EXECUTIVE ETHICS COMMISSION
OF THE STATE OF ILLINOIS

In re: KEVIN CAVANAUGH,) OEIG Case #11-02230

OEIG FINAL REPORT (REDACTED)

Below is a final summary report from an Executive Inspector General. The General Assembly has directed the Executive Ethics Commission (Commission) to redact information from this report that may reveal the identity of witnesses, complainants or informants and “any other information it believes should not be made public.” 5 ILCS 430/20-52(b).

The Commission exercises this responsibility with great caution and with the goal of balancing the sometimes-competing interests of increasing transparency and operating with fairness to the accused. In order to balance these interests, the Commission may redact certain information contained in this report. The redactions are made with the understanding that the subject or subjects of the investigation have had no opportunity to rebut the report’s factual allegations or legal conclusions before the Commission.

The Commission received a final report from the Governor’s Office of Executive Inspector General (“OEIG”) and a response from the agency in this matter. The Commission, pursuant to 5 ILCS 430/20-52, redacted the final report and mailed copies of the redacted version and responses to the Attorney General, the Governor’s Executive Inspector General and to Kevin Cavanaugh at his last known addresses.

The Commission reviewed all suggestions received and makes this document available pursuant to 5 ILCS 430/20-52.

FINAL REPORT

Executive Summary

Since about 2006, the Illinois Department of Veterans’ Affairs has been charged with awarding grants to benefit Illinois veterans (Veterans Cash Grant Program). Funds distributed under the Veterans Cash Grant Program are collected from the Veterans Cash scratch-off lottery game proceeds. Since its inception, about 200 organizations have been awarded about \$10 million in grants under this program.

In 2008, IDVA hired Kevin Cavanaugh to oversee the Veterans Cash Grant Program who was *solely responsible* for, among other things, ensuring that all grant recipients complied with reporting standards. In other words, he was hired to monitor grant fund expenditures. One way to make certain entities awarded State grant funds used them appropriately was via a review of expenditure reports they were required to submit to IDVA.

The OEIG investigation revealed that from about 2007 through 2012, IDVA repeatedly failed to monitor grant fund expenditures as reflected by multiple IDVA external audits and an internal IDVA audit. In addition, in October 2012, IDVA’s grant database, which was created to

record, among other things, the receipt of grantee reports, revealed that IDVA *lacked any required reports* reflecting grant fund expenditures for about 79 grantees awarded over \$4.2 million in grant funds. The lack of multiple records prevented IDVA from performing activities aimed at monitoring whether grant funds were used appropriately.

Surprisingly, IDVA's failure to monitor its Veterans Cash Grant Program expenditures occurred not only in spite of multiple audits warning it of deficiencies but also occurred in the face of a 2012 OEIG report in which IDVA was *again* presumably placed on notice that its sole grant monitor, Mr. Cavanaugh, was improperly overseeing grants. Nevertheless, IDVA inexplicably allowed Mr. Cavanaugh to remain its sole monitor, a position he held from about March 2008 until his May 2013 resignation, which occurred two days after OEIG investigators interviewed him about allegations relating to this investigation. Not surprisingly, the OEIG's current investigation found that he:

- knowingly failed to obtain required reports from grantees and prevent non-compliant grantees from receiving additional Veterans Cash Grant Program grants; and
- engaged in conflicts of interest, including acceptance of gifts from grantees.

The OEIG also found that some Veterans Cash Grant Program grantees maintained poor and incomplete records reflecting how or the manner in which they spent Veterans Cash Grant Program funds. Despite poor grantee recordkeeping, IDVA continued to award grants to non-compliant grantees, inconsistent with State law.

Although IDVA has recently taken steps to remedy issues with the Veterans Cash Grant Program and has undertaken measures aimed at changing the grant application and grant applicant review process, this action is long overdue. In light of IDVA's prior inaction, State officials may never really know how much in State funds intended for the benefit of Illinois veterans were inappropriately spent on other items. Illinois veterans deserved better.

I. INTRODUCTION

In December 2011, the Office of Executive Inspector General (OEIG) received a complaint alleging, among other things, that the Illinois Department of Veterans' Affairs (IDVA) improperly awarded grant funds and that grant funds were impermissibly used.¹ It was also alleged that then IDVA Grants and Special Projects Administrator Kevin Cavanaugh engaged in wrongdoing. During its investigation, the OEIG received additional allegations involving Mr. Cavanaugh, including that he accepted gifts from IDVA grantees and engaged in conflicts of interest in violation of IDVA policy.

¹ The OEIG created a Grant Review Initiative Team in order to assemble trained staff to investigate the misuse of grant funds. See OEIG Website, Grant Review Initiative Team, *available at* <http://www2.illinois.gov/oeig/Pages/GRIT.aspx> (last accessed December 1, 2014). Staff from that team worked on this investigation.

The OEIG concludes that Mr. Cavanaugh committed nonfeasance, improperly accepted gifts from IDVA grantees, engaged in conflicts of interest, violated personnel rules, and misused State time and resources. Mr. Cavanaugh resigned in May 2013.

The OEIG further concludes that IDVA failed to manage and oversee its multi-million dollar Veterans Cash Grant Program. IDVA's management failures occurred despite having received multiple audit findings relating to its grant monitoring activities. In any event, between 2008 and 2014 the Veterans Cash Grant Program has been able to recover over \$400,000 in unused grant funds, including about \$35,000 it recovered in 2014.

II. PRIOR OEIG INVESTIGATION [REDACTED] INVOLVING KEVIN CAVANAUGH

[This section contains information about an OEIG investigation that has not been released pursuant to 5 ILCS 430/20-52.]

[REDACTED]

[REDACTED]

III. BACKGROUND

A. Illinois Department of Veterans' Affairs Management

During the time period of this investigation IDVA had various directors and managers. Below is a chart depicting IDVA leadership during Mr. Cavanaugh's employment. Mr. Cavanaugh reported to either IDVA's Chief of Staff or Deputy Chief of Staff while at IDVA.

² [Redacted]

³ Per the OEIG's recommendation, IDVA has recovered about \$8,000, and has made arrangements to recover another \$34,000 in grant funds the grantee in the [REDACTED] investigation misspent.

IDVA Leadership During Kevin Cavanaugh's Employment

	2008	2009	2010	2011	2012	2013	2014
Director	1	Dan Grant Feb 2009 - Aug 2011			Erica Borggren Aug 2011 - Jun 2014		
Chief of Staff/Acting Chief of Staff	Stewart Reeve Jun 2007 - Aug 2011				Simon Wlodarski Aug 2011 - Oct 2012	Tony Kolbeck Oct 2012 - Feb 2014	
Deputy Chief of Staff		Simon Wlodarski Mar 2009 - Aug 2011					
Grant Administrator	Kevin Cavanaugh Mar 2008 - May 2013						Employee 1 Nov 2013 - present

Box 1 - Tammy Duckworth, Director Nov 2006 - Feb 2009

B. Illinois Department of Veterans' Affairs — Veterans Cash Grant Program

The Illinois Department of Veterans' Affairs is an agency whose mission is to empower veterans and their families in a variety of manners.⁴ In 2006, pursuant to the Illinois Lottery Law, a special scratch-off lottery game was established for the benefit of Illinois veterans.⁵ State law appropriated scratch-off game lottery proceeds to IDVA for the purpose of awarding "grants, funding additional services, or conducting additional research" for various projects, including projects relating to post traumatic stress disorder, disability benefits, and homelessness.⁶ According to IDVA's website, "[s]ince 2006, nearly 200 organizations have shared about \$10 million in funding."⁷ In this report, a grant funded by scratch-off lottery proceeds will be referred to as a Veterans Cash Grant.

Organizations may obtain Veterans Cash Grant funds by submitting an IDVA application. The IDVA application requires applicants to provide the purpose of their request. Veterans Cash Grant applicants are evaluated by a committee that determines whether to award a grant. The grant Committee consists of three members appointed by the IDVA Director. Pursuant to State law, IDVA staff members, "as determined by the Director, shall advise the Committee." The Committee awards grants each quarter, if funds are available. After the grant is awarded, a grant agreement is executed between IDVA and the grantee. The grant agreements

⁴ IDVA Website, About Us, available at <http://www2.illinois.gov/veterans/about-us/Pages/default.aspx>, (last accessed Dec. 1, 2014).

⁵ On Nov. 24, 2014, a new lottery ticket was launched. See Illinois.gov website, Governor Quinn Launches Newest Veterans Cash Lottery Ticket, available at <http://www3.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=2&RecNum=12858> (last accessed Nov. 25, 2014).

⁶ 20 ILCS 1605/21.6(b).

⁷ IDVA Website, Veterans Cash, available at <http://www2.illinois.gov/veterans/programs/Pages/veterans-cash.aspx> (last accessed December 1, 2014).

contain several clauses, including one that states “the Grantee shall return grant funds corresponding to services not performed.”⁸

In May 2010, the Illinois Joint Committee for Administrative Rules (JCAR) established additional guidelines for the Veterans Cash Grant Program. Specifically, additional eligibility requirements for grant recipients, general procedures for awarding grants, and rules governing disqualification were established.⁹ Amendments to the Administrative Code now state that: “No grant may be approved: . . . [t]o an applicant that is non-compliant on a previous grant, including the failure to supply a proper concluding report.”¹⁰

C. Illinois Office of Auditor General Findings Regarding the Veterans Cash Grant Program for Fiscal Years 2007 through 2012

The Office of Auditor General (Auditor General) regularly audits State agencies, including IDVA. Between 2007 and 2012, the Auditor General conducted *three* separate two-year audits of IDVA. Below is a summary of some of those findings and IDVA responses relating to the Veterans Cash Grant Program.

Auditor General’s FYs 2007-08 Findings: IDVA Response:

“Inadequate controls over [IDVA] grant agreements.” IDVA “did not enforce compliance with its grant agreements’ requirements regarding timely submission of required reports” and as a result, its “ability to monitor State grants was negatively impacted.” It will rewrite the grant agreement, is working on administrative rules, and it developed a “Veterans Cash Grant database to assist with monitoring of the grant program and grant reporting.”

Auditor General’s FYs 2009-10 Findings: IDVA Response:

“Inadequate controls over grant agreements and related reporting.” The audit also referred to prior issues regarding IDVA’s non-enforcement of timely reports and the impact on its ability to monitor grants. It “will continue to remind grantees of their requirements and warn grantees that failure to comply may result in a rejection of future grant applications. Subsequent grant applications submitted by grantees with a history of noncompliance will encounter an increased likelihood of rejection, where possible.”

Auditor General’s FYs 2011-12: IDVA Response:

“Inadequate controls over grant agreements and related reporting,” and noted the same issues with timely submission of reports and IDVA’s ability to monitor grants as it did in the two abovementioned audit reports. It “will increase efforts to bring grant recipients into compliance with their reporting requirements.”

D. IDVA’s Internal Audit: January 2011 to March 2012

Under Illinois law, the Fiscal Control and Internal Auditing Act, certain State agencies, including IDVA, are required to conduct periodic internal audits of their programs.¹¹ IDVA

⁸ The grant agreements further state “[a]ll funds remaining at the end of the grant agreement . . . shall be returned to the Department within 45 days in accordance with [] the Illinois Grant Funds Recovery Act, 30 ILCS 705/5.”

⁹ See Ill. Admin Code tit 95, § 125.

¹⁰ See Ill. Admin Code tit 95, § 125.80.

¹¹ See Fiscal Control and Internal Auditing Act, 30 ILCS 10/2003. As part of their own internal audits, State law requires agencies to “establish and maintain a system, or systems, of internal fiscal and administrative controls,

conducted an internal audit of its Veterans Cash Grant Program for the period of January 1, 2011 through March 23, 2012.

On March 15, 2012, IDVA's internal auditor held a meeting with then IDVA Grants and Special Projects Administrator Kevin Cavanaugh and Chief of Staff Simon Wlodarski. On March 26, 2012, IDVA's internal auditor issued a final audit report to numerous employees, including former IDVA Director Erica Borggren, Mr. Cavanaugh, and Mr. Wlodarski. The internal IDVA audit made one material finding: "Inadequate oversight of reporting by grant recipients." Specifically, the audit stated:

"Grant recipients have largely been noncompliant with their reporting requirements, . . . [and] [t]he Department had not established formal guidelines for handling grant recipients who were noncompliant with their reporting requirements. Noncompliant grant recipients were not subject to standard delinquency notifications or an increased risk of inspection by the Department staff in order to promote compliance."

The internal audit also made three *immaterial* findings:

Inadequate segregation of duties:

The "Grant Administrator [Mr. Cavanaugh] was almost solely responsibility [sic] for the receipt, input, processing, notification, reporting, and follow-up as it pertained to the Veterans' Cash Grant applications and agreements." The report noted that it is "good business practice to segregate duties, as no one person should be able to circumvent a process alone."

Information technology requirements were not adequately defined:

The "Grant Database was not kept up to date, which resulted in not only unreliable reporting, but in an underutilized resource which has the potential to be a valuable tool in identifying delinquent grantees."

Grant Application and Grant Agreement did not conform to the requirements:

The "Grant Application does not reflect that failure to adhere to reporting requirements is a violation of State law (30 ILCS 705/4(b)(2) and 4.1)¹² and does not leverage potential consequences to promote compliance with reporting requirements."

The March 2012 internal audit also made several recommendations, including a recommendation that IDVA consider "[a]dding a requirement [to the grant application] to disclose any relationship or close friendship with the . . . Grant Administrator, or Department employee. Particularly given the incident at DCFS."¹³

which shall provide assurance that . . . [f]unds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation." 30 ILCS 10/3001.

¹² Citations are to the Illinois Grant Funds Recovery Act.

¹³ The auditor reference to DCFS appears to be a reference to OEIG Final Report 10-01182, in which the OEIG found that DCFS failed to adequately monitor grants. *available at* http://www2.illinois.gov/oeig/Documents/10-01182_McEwen_et%20al_10.17.11.pdf (last accessed December 1, 2014).

IV. INVESTIGATION – PART I

This investigation is divided into two main parts. In Part I, we discuss the duties of Mr. Cavanaugh, including how he monitored grants, among other things.

In Part II, we discuss IDVA's oversight and monitoring of its multi-million dollar Veterans Cash Grant Program including direction provided by former IDVA Director Erica Borggren and actions IDVA staff took after Mr. Cavanaugh resigned in May 2013.

A. Grants and Special Projects Administrator Kevin Cavanaugh's Job Duties and Responsibilities and Subsequent Resignation

In March 2008, or about two years after the creation of the special scratch-off lottery game was established to benefit Illinois veterans, IDVA hired Kevin Cavanaugh as its Grants and Special Projects Administrator. In this position, Mr. Cavanaugh's duties and responsibilities included managing the Veterans Cash Grant Program including the requirement that he review reports IDVA grant recipients submitted in order to determine how grant funds were spent.

Mr. Cavanaugh's job performance reviews from March 2009 through March 2013 reflect that his objectives included managing the Veterans Cash Grant Program, ensuring compliance with reporting standards, maintaining the database, and implementing or ensuring compliance with JCAR.¹⁴ In addition, Mr. Cavanaugh's job performances for each of the three years reveals that his managers found he "met" his objective of managing the Veterans Cash Grant Program.

On May 22, 2013, OEIG investigators interviewed Mr. Cavanaugh about a variety of the allegations relating to this investigation.¹⁵ Two days after his OEIG interview, Mr. Cavanaugh resigned. Information regarding his OEIG interview is set forth below.

B. IDVA Veterans Cash Grant Program Database—October 2012

The OEIG reviewed IDVA's Veterans Cash Grant Program database which contains information dating back to 2008. The database contains grantee names, amounts of grant awarded, and dates IDVA received either quarterly or semi-annual reports, as well as the dates when the reports were reviewed.

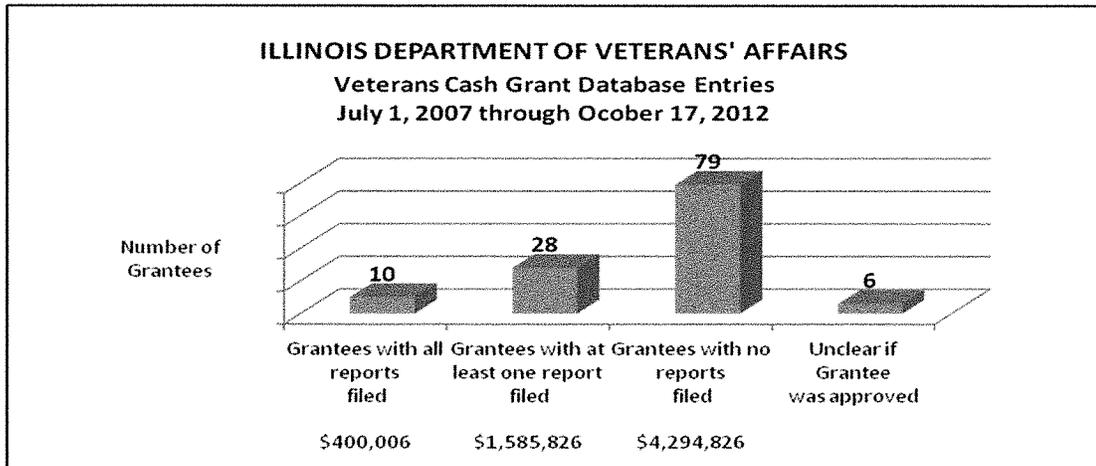
On October 18, 2012, the OEIG obtained printouts from the IDVA Veterans Cash Grant database. According to the printouts, about 123 grants totaling about \$6,280,658¹⁶ were awarded by IDVA to various entities from FY08 through part of FY12. In the below chart, we summarize the number of grantees who submitted all, some, and no reports as well as the total amount of

¹⁴ As set forth above, in May 2010, the Joint Committee for Administrative Rules, commonly referred to as JCAR, enacted additional guidelines that stated, among other things, that IDVA could not approve any grant "[t]o an applicant that is non-compliant on a previous grant, including the failure to supply a proper concluding report."

¹⁵ Around May 6, 2013, IDVA initiated disciplinary proceedings against Mr. Cavanaugh and noted charges such as accepting gifts, engaging in conflicts of interest, misusing the State computer, among other things. On May 9, 2013, IDVA placed Mr. Cavanaugh on administrative leave.

¹⁶ This figure excludes about six grants where investigators were unable to determine whether the comptroller paid funds or whether the grant was approved.

grant funds awarded to those grantees. This information is based upon information in IDVA's database.



As set forth above, the database printouts reflect that IDVA *did not* receive required reports for about 79 of the 123 grantees, two of which were Diveheart and the African American Post Traumatic Stress Disorder Association (Post Traumatic Stress Disorder Association), discussed in greater detail below. The next largest number of grantees (28 in total) submitted at least one report to IDVA, per the database. Finally, according to the database, only 10 of the 123 grantees submitted all required reports.

C. Interview with IDVA Acting Chief of Staff Tony Kolbeck

The OEIG interviewed former IDVA Acting Chief of Staff Tony Kolbeck in order to determine who supervised Mr. Cavanaugh and how. According to Mr. Kolbeck, he became the Acting Chief of Staff in October 2012 and also became Mr. Cavanaugh's supervisor because Mr. Cavanaugh's prior supervisor was called to active military duty. Mr. Kolbeck said he reviewed Mr. Cavanaugh's performance and to his knowledge, Mr. Cavanaugh met his job expectation of ensuring that Veterans Cash Grant Program recipients complied with IDVA reporting standards. Mr. Kolbeck said he did not believe his review could consider Mr. Cavanaugh's conduct from a prior performance evaluation reporting period.

Mr. Kolbeck also said he was not aware of any grantees that continued to receive grants when they had not submitted the required reports. However, Mr. Kolbeck said he:

- did not have a list of the current grantees,
- did not access IDVA's grant database, and
- it was solely Mr. Cavanaugh's responsibility to notify the Veterans Cash Grant Committee whether a grantee had submitted required grant reports.

In addition, Mr. Kolbeck confirmed that IDVA would not know if a grantee had any remaining funds at the end of the grant term if the grantee did not submit the required reports.

D. The Diveheart Foundation

Diveheart is a non-profit organization that provides scuba diving opportunities for children, adults, and veterans with disabilities.¹⁷ Diveheart's President and Founder is Jim Elliott. According to Diveheart's website, in September 2011 and September 2013, Diveheart held a golf outing in memory of former IDVA employee Kevin Cavanaugh's father. In addition, records reveal that Mr. Cavanaugh donated \$250 to them in January 2012.¹⁸

1. Veterans Cash Grant Program Grantee: Diveheart and its IDVA Grant Reports

Diveheart received two IDVA Veterans Cash Grants, one for \$50,000 and the other for \$75,000. Both grants required it to "maintain for a minimum of 3 years after the completion of the grant agreement, adequate books, records, and supporting documents to verify the amounts, recipients, and uses of all disbursements of funds passing in conjunction with [the] grant agreement."¹⁹

Diveheart's Initial Grant—\$50,000

On November 17, 2008, Diveheart submitted an application for a Veterans Cash Grant without noting the "amount requested" in the application. Diveheart described its mission as follows, to "invigorate the spirit and imagination of our veterans with disabilities by using scuba diving as a tool to build confidence and independence, offer a sense of freedom and high adventure, and empower individuals to set goals and believe in reaching them."²⁰

In January 2009, Diveheart was awarded a \$50,000 Veterans Cash Grant for the period of January 2009 through December 2010. The grant required Diveheart to submit semi-annual reports outlining grant fund expenditures. Diveheart's grant agreement states that it would "provide services as provided in the grant application"

Diveheart's Second IDVA Grant—\$75,000

On September 27, 2010, Diveheart submitted another grant application, this time seeking a \$100,000 grant. Diveheart's mission description was similar to its initial grant application and its purpose in requesting the funds was nearly verbatim to its initial grant application.

¹⁷ Diveheart website, *available at* <http://diveheart.org/> (last accessed December 1, 2014).

¹⁸ Documents also reflect that Mr. Cavanaugh made \$250 donation(s) to the following grantees: BraveHearts Therapeutic Riding & Education Center (December 2011 and February 2012); and Revelation Golf (January 2012).

¹⁹ This requirement is inconsistent with Illinois law, which requires financial records to be maintained and retained for five years after the final payment is made by IDVA. *See* Ill Admin. Code tit 95, § 125.70(d).

²⁰ In stating the purpose of the funding request Diveheart also wrote that it sought: "1) to expand current DMW [Diveheart Military Wounded] program through training of a greater number of veterans and buddies[;] 2) provide outreach statewide by helping to establish more local programs[;] and 3) provide life changing scuba adventures in both fresh and salt water locations."

In March 2011, Diveheart was awarded a second Veterans Cash Grant for \$75,000, rather than \$100,000 as requested. The grant term period was March 2011 through June 2012 and again required Diveheart to submit quarterly reports outlining its expenditure of grant funds.

2. OEIG Review of Diveheart’s Grant Documents and Related Interview of Diveheart President and Founder Jim Elliott

In order to determine how it used grant funds, investigators asked Diveheart to produce all expenditure documents pertaining to its \$50,000 and \$75,000 Veterans Cash Grants. On March 30, 2012, Diveheart produced a box of documents and in an April 20, 2012 email, Diveheart informed the OEIG that it, “did not submit semi-annual or quarterly reports per the contracts for the IDVA grant[s] Also... these reports were not requested by the IDVA.”²¹

On June 15, 2012, the OEIG interviewed Diveheart President and Founder Jim Elliott in order to ask him about the expenditure documents Diveheart produced to the OEIG. Mr. Elliott confirmed he signed the \$50,000 and \$75,000 Veterans Cash Grant agreements and oversees the accounting for IDVA grant funds. Mr. Elliott also said Diveheart holds Veterans Cash Grant funds in the same account as its general revenue funds and that although his \$50,000 IDVA grant required him to complete semi-annual reports, Diveheart *never* submitted any reports. According to Mr. Elliott, Diveheart did not realize it had to submit reports and “just missed it.” Mr. Elliott said he spoke with Mr. Cavanaugh about “twice a quarter,” but was *never* asked to provide semi-annual or quarterly reports regarding how Diveheart used IDVA grant funds.

OEIG investigators asked Mr. Elliott about certain documents Diveheart produced to support grant expenditures. Specifically, Mr. Elliott was asked about:

- a receipt for “Apple Earphones”;
- receipts for food and alcohol purchases;
- a handwritten note for \$500.00, dated 9/30/2010; and
- Watermark Property Management, LLC invoices reflecting a late payment.

In response to these documents, Mr. Elliott said the:

- Apple earphones should not have been charged to the grant;
- food and alcohol purchases were not charged to the grant;
- the note with “\$500” was for a locker rental and should not have been and was not charged to the grant; and
- Watermark Property invoices reflected a late fee, which should not have been charged to the grant.

Mr. Elliott said that the OEIG should not have received these receipts. In addition, investigators also asked Mr. Elliott about a:

²¹ In July 2013, almost a year after Mr. Elliott’s interview, Diveheart submitted to IDVA a “Final Report” for its \$50,000 grant in which Diveheart reported that there were “no remaining funds.”

- spreadsheet listing persons Diveheart trained; and
- document titled “Itemization of Grant Expenditures During Reporting Period 2/09 – 8/10.”

In response, Mr. Elliott told investigators that the spreadsheet listing persons trained was incomplete and that the Itemization of Grant Expenditures was not an accurate reflection of expenditures charged to the grant.

Investigators also asked Mr. Elliott about documents (invoices) reflecting trainings Diveheart purportedly conducted. In response, he said the documents did not contain any invoices for trainings he conducted in 2010, 2011, or 2012. Mr. Elliott was also asked about a Diveheart account statement reflecting canceled checks payable to himself. In response, he said he is allowed to write checks from the Diveheart account to himself and described the checks as payments for training he provided. Mr. Elliott said he did not see a problem with writing a check to himself and said there would be an invoice that matched the check amount. Nevertheless, Mr. Elliott acknowledged that Diveheart did not provide the OEIG with *any* invoices, supporting payments he made to himself, in either 2010, 2011, or 2012 for training he purportedly provided.

In short, even though the OEIG asked Diveheart to produce all documents pertaining to its grants before his interview, Mr. Elliott said he would need to follow-up with investigators and provide relevant documents. In other words, Mr. Elliott confirmed that Diveheart did not provide the OEIG with accurate information regarding expenditures relating to his two grants. Finally, Mr. Elliott said Diveheart stopped spending grant money once it was contacted by the OEIG and confirmed that unused funds had to be returned to IDVA but he was unable to say how much of the \$75,000 in grant funds remained.

E. Post Traumatic Stress Disorder Association

Post Traumatic Stress Disorder Association is a National Veterans Service Organization dedicated to the service of all veterans.²² The Illinois Director and CEO of the Post Traumatic Stress Disorder Association is Wayne Price and its National President is Sidney Lee.

1. Veterans Cash Grant Program Grantee: Post Traumatic Stress Disorder Association and its IDVA Grant Reports

Post Traumatic Stress Disorder Association received two IDVA Veterans Cash Grants, each for \$100,000. Both \$100,000 grants required it to “maintain for a minimum of 3 years after the completion of this grant agreement, adequate books, records, and supporting documents to verify the amounts, recipients, and uses of all disbursements of funds passing in conjunction with [the] grant agreement.”

Post Traumatic Stress Disorder Association’s Initial Grant—\$100,000

²² Post-Traumatic Stress Disorder Association website, *available at* <http://www.aaptsdassn.org/> (last accessed December 1, 2014).

In October 2008, Post Traumatic Stress Disorder Association submitted an application for an IDVA Veterans Cash Grant seeking \$100,000. In its Veterans Cash Grant application, it states that it “provide[s] services and educational materials to all veterans and their dependents that are in need of assistance because of their service connected disabilities” In addition, Post Traumatic Stress Disorder Association described its mission as “to assist in the reduction of homeless veterans and provid[e] a new start program. We will provide claim processing, workshops and the most current, detailed medical information and materials for PTSD and TBI”²³

In April 2009, Post Traumatic Stress Disorder Association was awarded its first Veterans Cash Grant for \$100,000. According to the grant agreement, “[t]he Grantee will provide services as provided in the grant application” The grant term was April 2009 through May 2010 and required Post Traumatic Stress Disorder Association to submit semi-annual reports outlining its expenditure of grant funds.

Post Traumatic Stress Disorder Association’s Second Grant—\$100,000

In February 2010, Post Traumatic Stress Disorder Association submitted another \$100,000 Veterans Cash Grant application. Post Traumatic Stress Disorder Association’s description of its mission was very similar to the description in its first grant application and the purpose of the request was also very similar to the purpose outlined in the 2009 grant above.

Investigators obtained the March 30, 2010 Veterans Cash Grant approval form used by the Veterans Cash Grant Committee when it considered Post Traumatic Stress Disorder Association’s second grant. The form, notes that Post Traumatic Stress Disorder Association is approved “[p]ending full compliance w/ reporting”

In June 2011, IDVA awarded Post Traumatic Stress Disorder Association with a second \$100,000 Veterans Cash Grant. This grant also stated that the services the grantee will provide are contained in the grantee’s application. This grant’s term was June 2011 through June 2012 and required Post Traumatic Stress Disorder Association to submit quarterly reports outlining its expenditure of grant funds.

2. OEIG Review of Post Traumatic Stress Disorder Association Documents and related Interview of Director and CEO Wayne Price

In order to determine how grant funds were used, investigators asked Post Traumatic Stress Disorder Association to produce all grant expenditure documents relating to its 2009 and 2011 grants. The OEIG also requested IDVA to produce all information relating to any and all semi-annual and/or quarterly reports for Post Traumatic Stress Disorder Association from State fiscal year 2008 through 2013. In November 2013, IDVA informed investigators that it does not

²³ The application summarizes the purpose of the request as follows: “The purpose of this funding request is to provide a culturally competent forum for the sharing of research information, clinical strategies, and to enhance the effectiveness of available resources among individuals with Post Traumatic Stress Disorder and Traumatic Brain Injury (TBI) also called acquired brain injury or simply head injury and/or other Military Related Illnesses and Injuries. Through our Get a New Start Program, we will also provide assistance to all homeless Veterans and their dependents.”

“have requested report(s) for [Post Traumatic Stress Disorder Association] on file.” On December 28, 2012, Post Traumatic Stress Disorder Association produced some documents.²⁴

After reviewing Post Traumatic Stress Disorder Association documents, investigators were unable to determine exactly how grant funds were used. Thus, on March 18, 2013, investigators interviewed Director and CEO Wayne Price who said his association did not complete or submit any of the required reports for the Veterans Cash Grants and said neither Mr. Cavanaugh nor anyone from IDVA contacted him regarding the reports. According to Mr. Price, when his association applied for its second \$100,000 grant, Mr. Cavanaugh *never* mentioned its failure to submit the required reports for the prior grant,²⁵ and said his only contact with Mr. Cavanaugh was during the grant application process. Initially, Mr. Price said he *did not* complete the required reports because he was waiting for someone at IDVA to contact him, and because he did not know what to put in the reports, but later said his failure to complete the required reports was his own negligence.

According to Mr. Price, his association deposits Veterans Cash Grant funds into two separate checking accounts because it cannot commingle funds. However, Mr. Price also acknowledged that one account used to deposit grant funds existed before his association received any grants, and contained non-grant funds. Mr. Price also said his association has written checks for non-grant related expenses from accounts holding IDVA grant funds. In other words, he acknowledged using grants funds for non-grant fund purposes. Nevertheless, Mr. Price said when that happens, he would move money from its savings account to cover the amount of grant funds withdrawn.

Investigators asked Mr. Price about several Post Traumatic Stress Disorder Association documents provided to the OEIG and specifically about documents reflecting a:

- \$600 donation for a Cultural celebration;
- \$495 donation to the Chicago Veterans Resource Center;
- \$1,000 donation to the Chicago Vet Center; and
- \$500 donation to IDVA for the State Fair.

In response, Mr. Price stated that donations Post Traumatic Stress Disorder Association made to various entities, including its \$500 donation to IDVA for the State Fair were made from Veterans Cash Grant Program funds and the criteria for whether to donate money is based on whether the money is related to veterans that live in Illinois. Mr. Price said that he was the person who determines how much in grant funds to donate and said he never contacted Mr. Cavanaugh to ask if he could use grant funds for donations, and that no one from IDVA informed him about how he could use the grant funds.

²⁴ In addition, Mr. Price said the document response tendered to the OEIG before his interview was incomplete because he was unable to locate grant documentations in storage.

²⁵ Mr. Price said it was possible that Mr. Cavanaugh spoke with someone at Post Traumatic Stress Disorder Association regarding the quarterly reports when it submitted its most recent grant application.

Investigators also asked Mr. Price about a \$6,000 check paid to Post Traumatic Stress Disorder Association's National President Sidney Lee²⁶ and a \$3,000 check paid to Dianne Valentin.²⁷ According to Mr. Price, the \$6,000 represented a fee paid to his association's national president for completing the IDVA grant application. Mr. Price said Mr. Lee also assisted with training, education materials, and legislative updates. In addition, Mr. Price said that Ms. Valentin was supposed to be a grant writer for the Post Traumatic Stress Disorder Association, but she did not complete any applications for the organization and he was unsure whether grant funds were used to pay her.

F. Mr. Cavanaugh Received Gifts from IDVA Veterans Cash Grant Grantees

During this investigation, the OEIG discovered that several Veterans Cash Grant grantees provided Mr. Cavanaugh with free or reduced cost items during the same time period he served as IDVA's Grants and Special Projects Administrator in which his duties and responsibilities included managing the Veterans Cash Grant Program. Below is a summary.

1. IDVA Grantee—United Cerebral Palsy Seguin of Greater Chicago

Between 2007 through 2013, IDVA awarded United Cerebral Palsy Seguin of Greater Chicago (United Cerebral Palsy Foundation) eight Veterans Cash Grants ranging from \$30,000 to \$100,000. United Cerebral Palsy Foundation had a Veterans Cash Grant in effect during June 2010, March 2011, June 2012, and June 2013.

On October 17, 2013, investigators interviewed United Cerebral Palsy Foundation Vice President of Marketing and Special Events regarding certain expenditures relating to Mr. Cavanaugh. The Vice President said she invited Mr. Cavanaugh and his guests to attend a \$125 annual fundraiser event *free of charge* in June 2010, March 2011, June 2012, and June 2013

The Vice President of marketing also said that according to United Cerebral Palsy Foundation's electronic check-in records, Mr. Cavanaugh attended the event free of charge in 2010 and 2012, but not in 2011 or 2013. Finally, she said Mr. Cavanaugh never discussed the Ethics Act or gift ban provisions with her.

2. IDVA Grantee—RevelationGolf

Between May 2007 and June 2013 RevelationGolf was awarded six Veterans Cash Grants ranging from \$62,350 to \$100,000.

The OEIG interviewed RevelationGolf Executive Director and the Associate Director. During her interview, the Executive Director stated she provided Mr. Cavanaugh with admission to the following events, free of charge:

- A \$175 per person golf fundraising outing, each year from 2008 to 2013.
- A \$100 per person fundraiser dinner for him and his wife in 2012.

²⁶ This was in the form of a cashier's check dated 6/11/2009 and made payable to the order of Sidney Lee.

²⁷ This was in the form of a cashier's check dated 7/2/2009 and made payable to the order of Dianne Valentin.

Additionally, the Associate Director stated that sometime in April 2011 she provided Mr. Cavanaugh with complimentary services and discounts including a free golf equipment assessment, for which she would typically charge \$145, discounted golf equipment, and a complimentary box of golf balls. The Executive Director and Associate Director separately informed investigators that Mr. Cavanaugh never discussed the Ethics Act with them.

G. Kevin Cavanaugh's Use of State Resources and Time

Investigators obtained emails from Mr. Cavanaugh's State email account and learned that he had received warnings regarding personal use of the email system. In March 2011, Mr. Cavanaugh was notified via email by IDVA Chief Information Officer to "[p]lease refrain from using the IDVA email system for these [personal] types of communications. Per ethics rules we need to use state systems for state of Illinois business only." Mr. Cavanaugh responded, acknowledging his "poor judgment."

During the investigation, the OEIG reviewed Mr. Cavanaugh's State email account and identified numerous personal emails that Mr. Cavanaugh sent and received after March 2011.

H. OEIG's Interview of Kevin Cavanaugh

On May 22, 2013, OEIG investigators interviewed Mr. Cavanaugh. As noted above, two days after his interview, Mr. Cavanaugh resigned. During his interview, Mr. Cavanaugh confirmed that he is familiar with the duties outlined above and he signed his performance reviews. Despite his duties and responsibilities, Mr. Cavanaugh confirmed that:

- he *did not* meet his job expectations relating to IDVA's grant database either by failing to enter required reports into the database or failing to obtain the reports;
- he *did not* know if Post Traumatic Stress Disorder Association completed required reports for either of its \$100,000 grants (no reports were listed in the database); and
- Diveheart and Post Traumatic Stress Disorder Association had grants in effect when he met with IDVA's internal auditors, but that even after the meeting to discuss the audit findings, he *did not* obtain the required reports from either grantee.

Mr. Cavanaugh acknowledged that if he does not receive required reports, there is no way for him to know if there are any unspent funds, and no way for IDVA to collect unspent grant funds. Mr. Cavanaugh also stated that if a grantee missed the deadline for submitting a required report or was not compliant with its grant terms, he would "go after" the grantee but also said it is "not feasible to ensure that all grantees submit reports."

According to Mr. Cavanaugh, he was the *only person* at IDVA who reviewed the reports submitted by grantees to determine how the grantees spent grant funds or if they met grant requirements. Mr. Cavanaugh also stated that he was the *only person* capable of informing the Veterans Cash Grant Committee if an organization was compliant with the previous grant requirements and the Committee relied on him for information regarding grantee non-compliance. However, Mr. Cavanaugh could not recall if he notified the grant Committee that Diveheart failed to submit reports during the first grant period. Mr. Cavanaugh also confirmed

that the Veterans Cash Grant approval form for Post Traumatic Stress Disorder Association's second grant reflects that the Committee members had approved the grant application pending compliance with its previous grant agreement. Mr. Cavanaugh also said that since Post Traumatic Stress Disorder Association was awarded a subsequent grant, he assumed he had informed the Committee that it had been compliant with the previous grant agreement.

During the interview, Mr. Cavanaugh also made several statements regarding his relationship with grantees. Specifically, Mr. Cavanaugh confirmed he:

- donated to Diveheart, and saw "no issue" or conflict of interest with donating to any of Veterans Cash Grant recipients he monitors;
- has a sister that dives with Diveheart, which held golf outings in memory of his father, but he did not recuse himself from Committee meetings discussing Diveheart grants because he did not have a personal interest in Diveheart; and
- did tell the Committee that his family worked with Diveheart but that he was not directed to recuse himself from meetings.

Mr. Cavanaugh also confirmed to investigators that he received gifts from grantees and the grantees were prohibited sources.²⁸ Specifically, Mr. Cavanaugh stated he:

- attended the 2010 and 2011 United Cerebral Palsy Foundation fundraisers and received four free tickets each year;²⁹
- attended the 2012 United Cerebral Palsy Foundation annual fundraiser and received six free tickets for the event;
- was offered six free tickets to the 2013 annual fundraiser and signed up himself and five friends to attend;
- received discounted golf equipment from the RevelationGolf Associate Director and based on the retail prices saved about \$200 by buying golf equipment from her;
- received a free assessment from the RevelationGolf Associate Director; and
- attended the RevelationGolf fall fundraiser in 2011 without paying and may have attended golf fundraisers in 2010 and 2011 for free, but could not recall.

Finally, Mr. Cavanaugh confirmed that he used his State email account to send personal emails in violation of IDVA policy and that he continued to use his State email account for personal emails even after receiving a March 2011 email directing him to refrain from doing so.

V. INVESTIGATION – PART II

²⁸ State law defines a prohibited source as any person or entity who does business or seeks to do business with the employee or State agency, or seeks an official action by a State employee, or has interests that may be substantially affected by the performance of the official duties of a State employee. 5 ILCS 430/1-5.

²⁹ Mr. Cavanaugh stated that the price of a ticket for the annual fundraiser was \$125, but said he believed the actual price was only \$20 because the event flyer states, "ticket price less \$20 is tax-deductible." Mr. Cavanaugh, however, acknowledged that he would not be able to attend the annual fundraiser if he had only paid \$20.

Part II of this report discusses IDVA's overall management of its multi-million dollar Veterans Cash Grant Program, including direction provided by former IDVA Director Erica Borggren and actions IDVA took after Mr. Cavanaugh resigned in May 2013.

A. Interview with Former IDVA Director Erica Borggren

On June 2, 2014, the OEIG interviewed former IDVA Director Erica Borggren. As noted above, Ms. Borggren served as the IDVA Director from August 2011 until June 2014. For almost two years Director Borggren held her position while Mr. Cavanaugh oversaw the Veterans Cash Grant Program.

1. IDVA's Steps to Improve the Veterans Cash Grant Program

Director Borggren stated that several systematic changes were being put into place to improve the Veterans Cash Grant Program during the time Mr. Cavanaugh was still employed by IDVA. Some action IDVA Director Borggren said she took included:

- Initiating an internal audit of the Veterans Cash Grant Program within her first two months at IDVA, which she said she did in part because of the media coverage of faulty grant reporting at DCFS.³⁰
- Updating the Veterans Cash Grant policy.
- Directing Mr. Kolbeck to closely monitor Mr. Cavanaugh's performance, including a requirement that Mr. Cavanaugh send an email to Mr. Kolbeck each week listing tasks that he had been directed to perform and what he had completed.
- Directing Mr. Cavanaugh to implement the internal audit recommendations.
- Requiring Mr. Cavanaugh to present the status of internal audit recommendations and the current list of delinquent grant recipients at weekly staff meetings.³¹

In addition, Director Borggren said that in May 2013, IDVA began a legal review of the reports submitted by grantees. Director Borggren said that legal staff would review the reports submitted by grantees for compliance after they were submitted to IDVA.

Director Borggren also discussed several changes that IDVA has made to improve the Veterans Cash Grant Program after Mr. Cavanaugh resigned, including moving the Veterans Cash Grant administrator position to the Springfield office, into the Grants Division, and placing it under the supervision of the IDVA Grants Supervisor to ensure greater supervision, and:

- hiring a grants supervisor and [Employee 1] as IDVA's new grant administrator;

³⁰ An email dated October 18, 2011 from Director Borggren to the former internal auditor states, "in light of the recent OEIG finding ref. DCFS and inadequate control over grant funding (see pretty much any IL newspaper from this morning), I'd like you to get with [Mr. Cavanaugh] to take a look at our current system of tracking our Vets Cash grantees and their reporting requirements to us."

³¹ Director Borggren said she asked Mr. Cavanaugh's supervisor to check on Mr. Cavanaugh's work, but she did not know if he went inside the database used by Mr. Cavanaugh or checked the accuracy of the underlying data used by Mr. Cavanaugh in his weekly meeting presentations.

- obtaining all of the required reports for grantees that were awarded grants during calendar years 2011 through 2014;
- obtaining and reviewing the required reports from organizations that received grants during 2007 through 2010;
- finalizing a new IDVA policy for the Veterans Cash Grant Program;
- requiring the grant administrator to perform an initial review of each report submitted by the grantee and allowing her to refer reports to legal staff if needed;
- conducting internal meetings every three to four weeks to discuss certain topics in detail, thus allowing more in-depth discussion of the Veterans Cash Grant Program;
- revising the grant agreements to include “much tighter processes”;
- conducting more formal site visits that utilize a one page “rubric”; and
- updating the Veterans Cash Grant application.

According to Director Borggren, weaknesses in IDVA’s old policy that allowed Mr. Cavanaugh to conceal his lack of performance have now been corrected. The new Veterans Cash Grant policy requires the Grants Supervisor to randomly spot-check three grants on a regular basis; this includes checking the database to ensure it is being filled in.

Director Borggren said that the IDVA legal staff now reviews grant reports, and finds “way more red flags than Kevin [Cavanaugh] ever did.”³² In the past, IDVA had instances where legal staff conducted a review of grantee reports, determined funds needed to be recuperated, but after reviewing the grant agreement determined that the agreement had not been “structured such that we had legal footing to stand on to recoup the funds.” In addition, Director Borggren said that is why IDVA prioritized revising the grant agreement. Director Borggren said IDVA obtained unused grant funds from two grantees in June 2013. Moreover, Director Borggren stated there were four grant recipients that IDVA considered pursuing recovery from, but it “didn’t have the legal footing” to pursue that action. Again, Director Borggren said changes have been made in the current grant agreement used by IDVA, and this would not occur under the new grant agreement.

2. Audits of the Veterans Cash Grant Program

Investigators asked Director Borggren about her receipt of audit findings regarding the Veterans Cash Grant Program. Director Borggren said she did receive the Auditor General’s audit for the two years ending June 30, 2010, in September 2011, or about a month after starting at IDVA. She said she discussed each audit finding with the former IDVA chief internal auditor and had conversations with Mr. Cavanaugh and former IDVA general counsel about improving reporting. In addition, she said she directed Mr. Cavanaugh to draft a written policy for the Veterans Cash Grant Program.

In regards to the Auditor General’s two-year IDVA audit ending June 30, 2012, Director Borggren said she was not surprised by the audit findings because she was already aware of the

³² According to Director Borggren, Mr. Cavanaugh was responsible for entering and maintaining information relating to Veterans Cash Grants, including entering reports received by grantees into the database. Director Borggren confirmed that the database is not effective if it is not kept up-to-date.

reporting problems mentioned in the audit, and that IDVA had already spent a full year addressing them. Director Borggren said the repeated audit finding did not raise any red flags, and said that the Office of Auditor General found under 10% of reporting compliance issues and said she felt IDVA had a “strong response” to the Auditor General’s potential audit findings.

3. IDVA’s failure to Address Deficiencies in the Veterans Cash Grant Program During Kevin Cavanaugh’s Employment

Although IDVA took several steps to remedy issues with the Veterans Cash Grant Program toward the end of Mr. Cavanaugh’s IDVA employment and after he resigned, investigators discovered several matters IDVA was unaware of during the majority of Mr. Cavanaugh’s employment. Specifically, Director Borggren said she was unaware of any instance in which a grant was awarded to a non-compliant grantee. Director Borggren said the only way the grant Committee would know if a grant applicant was non-compliant with a previous grant would be if Mr. Cavanaugh told them.

Director Borggren also said she was unaware of any substantive non-compliance involving Diveheart or Post Traumatic Stress Disorder Association nor was she aware that: Mr. Cavanaugh had a sister who used Diveheart as a resource, that Diveheart held a golf outing in honor of Mr. Cavanaugh’s father; or that he made donations to organizations he monitored. Director Borggren said although there were issues with Mr. Cavanaugh before, such as misuse of State time, she did not suspect him of being dishonest.

Director Borggren said that when she asked Mr. Cavanaugh for progress, he would say that he was working on his assignments. Director Borggren also said that occasionally Mr. Cavanaugh would be asked if the delinquent grant recipient list he presented was accurate and complete, and each time Mr. Cavanaugh answered that it was. According to Director Borggren, when Mr. Cavanaugh was asked for information about grantees, he would occasionally present information on grantees that were delinquent in reporting, so it appeared that he was doing his job. She explained that the low number of delinquent grant recipients made sense to her at the time because he was briefing IDVA on current grantees and because IDVA had been working towards “putting systems in place” to improve.

B. IDVA’s Independent Review of the Veterans Cash Grant Program

During the OEIG’s June 2014 interview of Director Borggren, investigators learned that IDVA had initiated an independent review of the Veterans Cash Grant Program. In light of this information, the OEIG requested several documents related to IDVA’s review of past Veterans Cash Grants, including the document outlining the current reporting status of IDVA grantees from 2011 through 2014 and the reports submitted by Diveheart and Post Traumatic Stress Disorder Association.

1. Diveheart—Revisited

IDVA produced to the OEIG, among other documents, excel spreadsheets titled “Veterans Cash Grant Report Summary Awarded 2008, 2009, and 2010.” The spreadsheets

reflected that the semi-annual and final reports due in 2009 and 2010 for Diveheart's \$50,000 grant were *not sent* to IDVA until March 2014, or until about four years after the reports were due. The spreadsheet also reflected that the quarterly reports due between July 2011 and April 2012 required for Diveheart's \$75,000 grant were *not sent* until January and March 2014, or about a year or two after the due date.³³

2. Post Traumatic Stress Disorder Association—Revisited

As discussed above, IDVA produced, among other documents, excel spreadsheets titled "Veterans Cash Grant Report Summary Awarded 2008, 2009, and 2010." The spreadsheet reflected that the semi-annual reports due in 2009 and 2010 for Post Traumatic Stress Disorder Association's first \$100,000 grant were *not sent* to IDVA until February 2014, or about three to four years after they were due. The spreadsheet further reflected that the quarterly reports due in 2011 and 2012 for Post Traumatic Stress Disorder Association's second \$10,000 grant were *not sent* to IDVA until February 2014, or about a year or two after the due date.

OEIG investigators added the total amount listed in the quarterly reports and compared them to the total grant expenditure listed in final reports. For the first \$100,000 grant, investigators calculated expenditures totaling about \$76,000 rather than \$101,034.77 as reflected in the final report. For the second \$100,000 grant, investigators calculated expenditures totaling about \$80,000 rather than \$91,849.71 as reflected in their final reports.³⁴

E. Interview with IDVA Veterans Cash Grant Administrator [Employee 1]

On September 3, 2014, investigators interviewed IDVA Veterans Cash Grant Administrator [Employee 1], who said she had held this position since November 2013.

1. [Employee 1's] Review of the Veterans Cash Grant Program

[Employee 1] said she is conducting a review of all Veterans Cash Grants issued from the inception of the program in 2007 through 2014. [Employee 1] said the review was initiated at the direction of former Director Borggren with the goal of determining how many grantees had submitted final reports and if any funds were unaccounted for. [Employee 1] said that about 180 out of 230 grantees awarded grants or about 78% were missing at least one final or quarterly report. [Employee 1] said she sent letters, made phone calls, and conducted site visits to obtain the missing reports and now about only two percent of the grantees are missing reports. [Employee 1] said during her review she identified unused grant funds. Documents produced to the OEIG after [Employee 1's] interview reveal that IDVA has recovered about \$402,772 of unused grant funds since the Program's inception.

³³ An OEIG investigator calculated the expenditures listed in the six reports Diveheart submitted and found a very minor discrepancy. [Employee 1] said she added up the total amounts on Diveheart's reports for the \$50,000 grant, and would be surprised if the discrepancy existed.

³⁴ [Employee 1] she said she reviewed Post Traumatic Stress Disorder Association's reports and was given direction to make sure the quarterly report amounts added up to the final report amounts. [Employee 1] said she "normally" made those calculations, but did not add up the totals for Post Traumatic Stress Disorder Association's first \$100,000 grant, but thought she did for the second \$100,000 grant. [Employee 1] said she would not be surprised if grant funds did not add up because it was "hard to get a clear answer when dealing with them."

[Employee 1] said her overall assessment of the final reports for the earlier grants was that the reports were vague regarding the breakdown of funds and grantees provided minimal information.³⁵ [Employee 1] said it was a challenge to determine what funds were used for and to verify those uses against the grant agreements. [Employee 1] said “I had never seen money disbursed without a direct dollar given to a specific item” However, [Employee 1] later said that the vagueness issue in the grant agreements and application improved after the first two or three years of the program.

2. [Employee 1’s] Review of Post Traumatic Stress Disorder Association and Diveheart’s Use of IDVA Grant Funds

[Employee 1] said that the application and agreement for Post Traumatic Stress Disorder Association’s first \$100,000 grant lacked measurable criteria for the grant and did not specify how Post Traumatic Stress Disorder Association would spend grant funds. [Employee 1] said grantees are not supposed to spend money on items not specified in the grant agreement, but in a situation where the funds were not itemized by the grantee, it was unclear how IDVA would be able to recuperate funds. For example, [Employee 1] explained it would be difficult to say Post Traumatic Stress Disorder Association could not use money for certain things listed in its quarterly reports, such as “grant writing,”³⁶ because there was no specification for how the funds could be used. [Employee 1] said unlike the current IDVA policy, Post Traumatic Stress Disorder Association was *not* required to submit receipts.

[Employee 1] acknowledged that certain expenses in the Association’s reports, like administrative fees and grant writing were red flags and the legal fees were questionable,³⁷ but said she did not ask them about the legal fees and did not see the grant writing issue until the interview. [Employee 1] said in reviewing the reports she does not believe they reflect full and intended use of grant funds and she has questions and follow-up. [Employee 1] said unlike Post Traumatic Stress Disorder Association, most grantees specified proposed uses for grant funds.

[Employee 1] said that her review of the Diveheart reports for both grants reflected full and intended use of funds, although [Employee 1] said her review was based on the reports submitted by Diveheart. Finally, [Employee 1] said that her review of every report submitted by prior Veterans Cash Grant recipients would be complete in three or four months and planned to do a final review of all of the files to confirm all funds were used as intended.

VI. ANALYSIS

³⁵ [Employee 1] said at the beginning of her review she discussed with her supervisor that information was missing from several reports and that the reports were “general and vague, and it was hard to match the reports up with the applications and agreements because there was not enough information.”

³⁶ As noted above at least \$6,000 was paid to Post Traumatic Stress Disorder Associations’ personnel for “grant writing.”

³⁷ [Employee 1] said she assumed the legal fees on Post Traumatic Stress Disorder Association’s report were for veterans based on her knowledge that the Association’s program helps veterans with benefits claims.

The OEIG concludes that Kevin Cavanaugh committed nonfeasance, improperly accepted gifts from grantees, engaged in conflicts of interest, and misused State time and resources and concludes that IDVA failed to manage the Veterans Cash Grant Program.

A. Kevin Cavanaugh Failed to Monitor IDVA Grantees

IDVA employees “who knowingly fail to perform the responsibilities associated with their position may be guilty of nonfeasance.”³⁸ In 2008, IDVA hired Kevin Cavanaugh to serve as its Grants and Special Projects Administrator. In this position, he was responsible for monitoring compliance of grant recipients, including ensuring all grant recipients comply with reporting standards.

The OEIG’s investigation revealed that Mr. Cavanaugh failed to obtain the required expenditure reports from IDVA grantees. Mr. Cavanaugh received ample notice of grantee reporting issues through prior discipline as well as years of multiple IDVA audits which found that IDVA was not enforcing “compliance with its grant agreements’ requirements regarding timely submission of required reports.” Despite ample notice, Mr. Cavanaugh did not obtain accurate or timely expenditure reports from Diveheart or Post Traumatic Stress Disorder Association. Thus, IDVA did not have accurate or timely reports for over \$300,000 of funds expended through those Veterans Cash Grants.

Moreover, at the time the OEIG requested a printout of the Veterans Cash Grant database (October 2012), of the approximately 123 grants in the database, there was no indication of any reports received for approximately 79 of those grants. It is possible that some of those grantees had submitted reports and that information was not put into the database. If that was the case, Mr. Cavanaugh failed to update the database, which was created to ensure reporting was completed by grantees. Failing to update the database eliminates the purpose for which it was created. Alternatively, if Mr. Cavanaugh was not receiving reports from grantees, there was no way for him or IDVA to know whether grantees were using grant funds properly and according to the grant terms. In every scenario, Mr. Cavanaugh was not performing his required duties.

Because Mr. Cavanaugh knowingly failed to monitor Veterans Cash Grant grantees by failing to ensure required reports were submitted or entered into the database, the allegation that he committed nonfeasance is **FOUNDED**.

B. Kevin Cavanaugh Allowed Non-Compliant Grantees to Receive Additional Grants

Beginning in 2010, Mr. Cavanaugh has been responsible for implementing JCAR rules. One of those rules is that “[n]o grant may be approved: . . . [t]o an applicant that is non-compliant on a previous grant, including the failure to supply a proper concluding report.”³⁹ Further, as Mr. Cavanaugh stated, the Veterans Cash Grant Committee relied on him for information regarding grantee non-compliance, and he would be the only person at the

³⁸ IDVA Employee Handbook, Rules of Conduct, Performance of Duties, p26 (October 2011); IDVA Employee Handbook, Rules of Conduct, Performance of Duties, p23 (July 2005).

³⁹ See Ill. Admin. Code tit 95, § 125.80.

Committee meeting who would know if a grantee was compliant with its previous grant. Mr. Kolbeck and Director Borggren confirmed it was Mr. Cavanaugh's responsibility to notify the Veterans Cash Grant Committee whether Post Traumatic Stress Disorder Association had submitted the required reports for its grant.

Post Traumatic Stress Disorder Association received a grant in 2009. Around February 2010, Post Traumatic Stress Disorder Association submitted an application for a second grant, which was eventually executed in June 2011. Mr. Cavanaugh confirmed that the Veterans Cash Grant approval form for the Association's second grant reflects that the Committee members had approved Post Traumatic Stress Disorder Association's grant application pending compliance with its previous grant. Post Traumatic Stress Disorder Association was not in compliance because it had not submitted the required reports during the time it applied for its second grant. Mr. Cavanaugh stated in his interview that since Post Traumatic Stress Disorder Association was awarded a subsequent grant, he assumed he had informed the Committee that Post Traumatic Stress Disorder Association had been compliant with the previous grant. In doing so, Mr. Cavanaugh allowed a non-compliant grantee to receive a second grant in violation of State law and in particular the JCAR rules.⁴⁰

Similarly, Diveheart received a \$50,000 grant and then a subsequent grant for \$75,000 even though Diveheart's President admitted that at that time Diveheart never submitted any of the required quarterly or semi-annual reports. Mr. Cavanaugh also said he could not recall if he notified the Committee that Diveheart had failed to submit reports during the first grant period.

Mr. Cavanaugh either failed to inform the Veterans Cash Grant Committee that Diveheart was non-compliant or the Committee improperly gave Diveheart a second grant after being informed by Mr. Cavanaugh that Diveheart was non-compliant. In either scenario, Mr. Cavanaugh failed to perform his job. In short, Mr. Cavanaugh allowed Diveheart to obtain a second grant even though it was non-compliant in violation of the JCAR rules.

Thus, the investigation reflects that Mr. Cavanaugh did not properly inform the Veterans Cash Grant Committee of grantee non-compliance and thereby knowingly failed to prevent non-compliant grantees from receiving additional grants. Therefore, the allegation that he committed nonfeasance is **FOUNDED**.

C. Kevin Cavanaugh Improperly Accepted Gifts from Grantees

The Ethics Act states that no "[S]tate employee shall intentionally solicit or accept any gift from any prohibited source"⁴¹ A "gift" is defined as, among other things, discounts, entertainment, hospitality, and other tangible or intangible items having monetary value.⁴² A prohibited source is any person or entity who does business or seeks to do business with the employee or State agency, or seeks an official action by a State employee, or has interests that

⁴⁰ The JCAR rules were effective in May 2010. Post Traumatic Stress Disorder Association's second grant was signed in June 2011 and Diveheart's second grant was signed in March 2011.

⁴¹ 5 ILCS 430/10-10.

⁴² 5 ILCS 430/1-5.

may be substantially affected by the performance of the official duties of a State employee.⁴³ An employee “does not violate this Act if [he or she] . . . [g]ives the gift⁴⁴ or an amount equal to its value to an appropriate charity that is exempt from income taxation.”⁴⁵

Mr. Cavanaugh confirmed that both United Cerebral Palsy Foundation and RevelationGolf are prohibited sources. Mr. Cavanaugh admitted to accepting numerous gifts from United Cerebral Palsy Foundation including:

- four free tickets to the 2010 annual fundraiser;
- four free tickets to the 2011 annual fundraiser; and
- six free tickets to the 2012 annual fundraiser.

Additionally the investigation revealed that Mr. Cavanaugh accepted the following gifts from RevelationGolf including:

- a benefit of approximately \$145 in April 2011 when the RevelationGolf Associate Director assessed his golf equipment free of charge;
- a benefit of approximately \$200 in April 2011 from the RevelationGolf Associate Director when he purchased discounted golf equipment;
- a \$100 benefit in November 2012 when his wife attended a dinner for free; and
- a \$175 benefit in 2010 and 2011 when he attended a fundraising event for free.⁴⁶

Because Mr. Cavanaugh accepted free tickets from United Cerebral Palsy Foundation to the annual fundraiser, the allegation that he violated the Ethics Act gift ban provisions is **FOUNDED**.

Because Mr. Cavanaugh accepted a free golf equipment assessment, discounted golf equipment, free admission for his wife to dinner, and free admission to golf outings, the allegation that Mr. Cavanaugh violated the Ethics Act gift ban provisions is **FOUNDED**.

D. Kevin Cavanaugh Engaged in a Conflict of Interest

IDVA prohibits employees from engaging in conflicts of interest, and defines a conflict of interest as when an employee has “[a] financial business, property or personal interest that may be affected by the decisions made or actions taken in conjunction with his/her public duties”⁴⁷

⁴³ *Id.*

⁴⁴ The OEIG also notes that Mr. Cavanaugh made \$250 donations to the following grantees on the following dates: Bravehearts (December 2011 and February 2012); RevelationGolf (January 2012); and Diveheart (January 2012). The amount of the donations is substantially less than the amount of gifts Mr. Cavanaugh received. Further, Mr. Cavanaugh did not state during his interview that the donations were related to gifts he received.

⁴⁵ 5 ILCS 430/10-30.

⁴⁶ Mr. Cavanaugh said he probably paid to attend the 2012 golf outing, and may have attended the 2010 and 2011 golf outing for free. However, the Executive Director said he attended for free from 2008 through 2012.

⁴⁷ IDVA Employee Handbook, Rules of Conduct, Conflicts of Interest, p22 (October 2011); IDVA Employee Handbook, Rules of Conduct, Conflicts of Interest, p19 (July 2005).

The investigation revealed that Mr. Cavanaugh and his family had a relationship with Diveheart, including that Diveheart held an event in honor of his father and his sister dives with Diveheart. Despite this personal relationship, Mr. Cavanaugh did not recuse himself from participating in meetings discussing whether Diveheart should be awarded a grant. Although the OEIG did not uncover any evidence suggesting that Mr. Cavanaugh provided false information to the grant Committee members, Mr. Cavanaugh could not specifically recall what he reported to the Committee members. Furthermore, Diveheart obtained a second grant even though it did not comply with its first grant. This personal relationship with Diveheart certainly could have affected Mr. Cavanaugh's decisions as the grant administrator. Therefore, the allegation that Mr. Cavanaugh engaged in a conflict of interest is **FOUNDED**.

E. Kevin Cavanaugh Misused State Time and Resources

IDVA employees are required to be “on-site, performing required duties during the hours established for their job.”⁴⁸ Additionally, employees may not use the email system for personal use, it is “for official Department business only.”⁴⁹

The investigation revealed that Mr. Cavanaugh, after receiving warnings related to his use of time and email, continued to abuse State resources. The time Mr. Cavanaugh spent sending personal emails should have been used to perform his job duties. Therefore, the allegation that Mr. Cavanaugh abused State time and resources is **FOUNDED**.

F. IDVA Failed to Manage and Oversee the Veterans Cash Grant Program

The Illinois Lottery Law provides that IDVA shall be appropriated funds for certain projects relating to veterans.⁵⁰ IDVA instituted procedures and created a position, namely the Grant and Special Projects Administrator position, to carry out functions associated with the Veterans Cash Grant Program. The grant funds awarded under this program were intended to be used for the benefit of Illinois veterans.

The investigation revealed that IDVA failed to ensure that grant funds appropriated through the multi-million dollar Veterans Cash Grant Program were used appropriately, despite numerous external audits and an internal audit that alerted the agency to issues regarding grant reporting and a previous OEIG report that notified IDVA that Mr. Cavanaugh failed to oversee a \$100,000 grant. The Office of the Auditor General consistently informed IDVA that from 2007 through 2012 there were inadequate controls over grant agreements and issues with grant reporting. Moreover, IDVA's own internal auditor informed IDVA in 2012 that there was “inadequate oversight of reporting by grant recipients.” Further, the OEIG issued a final summary report to IDVA detailing issues with Mr. Cavanaugh's oversight of a Veterans Cash Grant. However, despite years of being told about these issues, IDVA continued to allow Mr.

⁴⁸ IDVA Employee Handbook, Time and Attendance, Attendance, p9 (October 2011); IDVA Employee Handbook, Time and Attendance, Attendance, p7 (July 2005).

⁴⁹ IDVA Employee Handbook, Rules of Conduct, Use of Computers, p27-28 (October 2011); IDVA Employee Handbook, Use of Computers, p24-25 (July 2005).

⁵⁰ See 20 ILCS 1605/21.6.

Cavanaugh to be the only person to review grantee reports to determine how grantees were spending grant funds and if requirements were being met.

Although, it is clear that IDVA took steps to address the audit findings and issues with the Veterans Cash Grant Program, these steps did not prevent numerous reporting issues by grantees and Mr. Cavanaugh from misusing his position.⁵¹ Indeed, the OEIG's review of the Veterans Cash Grant database in October 2012, created to track grantee compliance, reflected that about 79 out of the 123 grantees did not submit *any* required reports to IDVA. Further, when IDVA's new Veterans Cash Grant Administrator [Employee 1] completed her review of grantees almost two years later she found that about 180 of 230 grantees from 2007 through 2014 were missing at least one final or quarterly report.

The failure of IDVA to ensure grantees were submitting reports and to review those reports meant that for years grantees' expenses remained unchecked, thus potentially depriving Illinois veterans of services to assist them with post traumatic stress disorder, homelessness, and disability benefits. When the OEIG sampled grantees, it found that they did not have a clear understanding of rules relating to grant fund expenditures or the requirement that expenditure reports be submitted. Indeed, Post Traumatic Stress Disorder believed it was permissible to use IDVA grant funds to donate to IDVA. In addition, it used at least \$6,000 in grant funds to pay for the writing of a grant, which presumably occurred *before* grant funds were even awarded. These expenditures are especially troubling considering that the mission and purpose stated on Post Traumatic Stress Disorder Association's grant was to assist homeless veterans and veterans with Post Traumatic Stress Disorder. Nevertheless, even though these expenditures were fully disclosed in Post Traumatic Stress Disorder's reports – IDVA did not obtain them until years after they were due.

Because IDVA failed to manage and oversee the Veterans Cash Grant Program this allegation is **FOUNDED**.

VII. CONCLUSIONS AND RECOMMENDATIONS

As a result of its investigation, the OEIG issues the following findings:

- **FOUNDED** – Kevin Cavanaugh committed nonfeasance in violation of IDVA policy when he knowingly failed to obtain required reports from grantees and/or enter reports into the database.
- **FOUNDED** – Kevin Cavanaugh committed nonfeasance in violation of IDVA policy when he knowingly failed to prevent non-compliant grantees from receiving additional grants.
- **FOUNDED** – Kevin Cavanaugh violated the Ethics Act gift ban prohibition when he improperly accepted free tickets to the annual fundraiser from IDVA grantee United Cerebral Palsy Foundation.

⁵¹ The OEIG commends IDVA for its recent aggressive and diligent approach to remedying issues within the Veterans Cash Program and that it has recovered some of the unused grant funds from the Program.

- **FOUNDED** – Kevin Cavanaugh violated the Ethics Act gift ban prohibition, when he improperly accepted items of value for himself and his wife from IDVA grantee RevelationGolf.
- **FOUNDED** – Kevin Cavanaugh violated IDVA personnel rules when he engaged in conflicts of interest.
- **FOUNDED** – Kevin Cavanaugh violated IDVA personnel rules when he used work hours to send personal emails.
- **FOUNDED** – Kevin Cavanaugh violated IDVA personnel rules when he sent personal emails from his State email account.
- **FOUNDED** – IDVA failed to manage and oversee the Veterans Cash Grant Program.

During the investigation, Mr. Cavanaugh resigned from his position at IDVA, but given his misconduct, the OEIG recommends that a copy of this report be included in his centralized employment file and that he not be rehired for State employment.

The OEIG recommends that pursuant to IDVA's grant agreements and the Grant Funds Recovery Act, that IDVA require grantees who received Veterans Cash Grant Program funds to account for the expenditure of all grant funds received, and if they are unable to, to initiate grant fund recovery procedures.

The OEIG further recommends that IDVA issue a reminder to its employees and grantees to adhere to the Ethics Act gift ban provisions.

No further investigative action is needed and this case is considered closed.

Date: **December 17, 2014**

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BRUCE RAUNER
GOVERNOR

ERICA L. JEFFRIES
ACTING DIRECTOR

To: Joshua I. Grant
Ref: OEIG Case No. 11-02230
Date: February 26, 2015

This is the Illinois Department of Veterans' Affairs (IDVA) agency response to the OEIG Case No. 11-02230 FINAL REPORT. The report has been reviewed by Acting Director Erica Jeffries and General Counsel/Ethics Officer Trish McGill and the responses to the recommendations for the agency are below.

- I. **RECOMMENDATION:** A copy of this report [shall] be included in Kevin Cavanaugh's centralized employment file.

RESPONSE: IMPLEMENT. In January 2015, Acting Director Garcia directed the IDVA Human Resources Manager to put a copy of OEIG Case No. 11-02230 FINAL REPORT in Mr. Cavanaugh's employment file. Additionally, the IDVA Human Resources Director sent a copy of the OEIG report to CMS and a corrected CMS-2 changing the transaction code to BA121, Separation No Reinstatement Rights. The comments section further explains that the modification of Mr. Cavanaugh's reinstatement status is pursuant to the OEIG's recommendation.

- II. **RECOMMENDATION:** IDVA require grantees who receive Veterans' Cash Grant Program funds to account for the expenditure of all grant funds received, and if they are unable to, to initiate grant fund recovery procedures.

RESPONSE: IMPLEMENT. IDVA implemented a new, more thorough grant agreement as of November 2014. The improved grant agreement requires grantees to account for the expenditure of all grant funds by submitting invoices and/or receipts to document each expenditure with each grant report.

IDVA has implemented a protocol to recovery grant funds and initiated grant fund recovery actions in 2014 to successfully recovered \$34,994.72 in grant funds.

III. **RECOMMENDATION:** IDVA issue a reminder to its employees and grantees to adhere to the Ethics Act gift ban provisions.

RESPONSE: IMPLEMENT. IDVA issued a reminder to all employees and current Veterans' Cash Grantees via email to adhere to the Ethics Act gift ban provisions on February 26, 2015.

Respectfully Submitted,


Trish McGill
General Counsel and Ethics Officer