

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ROCKFORD HUMAN SERVICES DID
NOT ALWAYS CHARGE ALLOWABLE
COSTS TO THE COMMUNITY SERVICES
BLOCK GRANT – RECOVERY ACT
PROGRAM**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Sheri L. Fulcher
Regional Inspector General**

**July 2013
A-05-12-00012**

Office of Inspector General

<https://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), provided \$1 billion to the Community Services Block Grant (CSBG) program for fiscal years (FY) 2009 and 2010. As with annually appropriated CSBG funds, Recovery Act funds were to be used to reduce poverty, revitalize low-income communities, and help low-income Americans. In addition, CSBG services funded by the Recovery Act were to be provided on or before September 30, 2010.

Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF), Office of Community Services, administers the CSBG program. The CSBG program funds a State-administered network of more than 1,100 local community action agencies (CAA) that deliver programs and services to low-income Americans. The CAAs provide services addressing employment, education, better use of available income, housing, nutrition, and health to combat the causes of poverty.

In the State of Illinois, the Department of Commerce and Economic Opportunity, Office of Community Development (State) was responsible for approving CAAs' applications for CSBG Recovery Act funds and monitoring CAAs' compliance with program requirements. Under the Recovery Act, the State was awarded \$47,232,781 in CSBG funds for FYs 2009 and 2010.

The City of Rockford, Human Services Department (Rockford) is the designated public CAA that provides services to individuals, families and neighborhoods in Rockford as well as in greater Winnebago and Boone Counties in Illinois. For the period May 1, 2009, through September 30, 2010, the State awarded Rockford \$1,062,800 in CSBG Recovery Act funds (the award).

By accepting grant awards, States agree to comply with Federal regulations governing the administration of the awards, including compliance with various cost principles. The CSBG Act requires that States receiving CSBG funds ensure that cost and accounting standards of the Office of Management and Budget apply to a recipient of the funds. Local governments are subject to 45 CFR pt. 74. These regulations state that the allowability of costs will be determined in accordance with 2 CFR pt. 225, *Cost Principles for State, Local, and Indian Tribal Governments*. To be allowable under an award, costs must be reasonable for the performance of the award and allocable to the award under these principles.

OBJECTIVE

Our objective was to determine whether selected CSBG Recovery Act costs that the State claimed for Rockford's program expenditures were allowable under the terms of the Recovery Act award and applicable Federal requirements.

SUMMARY OF FINDINGS

Of the \$598,888 in CSBG Recovery Act costs that the State claimed on behalf of Rockford and that we reviewed, \$251,796 was allowable under the terms of the Recovery Act award and applicable Federal requirements. The State claimed \$205,296 in unallowable costs on behalf of Rockford, including:

- \$123,530 in costs that were inadequately documented,
- \$72,669 in costs charged outside the award period, and
- \$9,097 in entertainment costs.

In addition, the State claimed \$141,796 in costs that may not have been allocable to the Recovery Act award and thus were potentially unallowable.

The unallowable costs claimed on behalf of Rockford occurred because Rockford did not follow its policies and procedures requiring costs be supported with source documentation, as well as comply with Recovery Act award and Federal requirements. The potentially unallowable costs the State claimed on behalf of Rockford occurred because Rockford did not have adequate levels of review in place to ensure that costs charged to the Recovery Act award, including subcontractor costs, were properly allocated in compliance with 2 CFR pt. 225.

RECOMMENDATIONS

We recommend that the State:

- return to the Federal Government unallowable costs totaling \$205,296,
- work with Rockford to determine what portion of the \$141,796 is allowable and refund to the Federal government any amount determined to be unallowable,
- ensure that Rockford revises its policies and procedures regarding the adequate documentation of all costs charged under Federal awards and the charging of costs during the award period, and
- ensure that Rockford revises its monitoring procedures to ensure that costs charged to Federal awards, including subcontractor costs, are in compliance with applicable Federal requirements.

ROCKFORD COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments to our draft report, Rockford did not concur with our first recommendation, did not address our second recommendation, and concurred with our third and fourth recommendations. Regarding our first recommendation, Rockford provided additional

documentation to support salary, leased vehicle, and a portion of the supply costs that we determined to be inadequately documented.

After reviewing and verifying the additional documentation provided by Rockford, we maintain the costs claimed for salary and supplies are inadequately documented. For the leased vehicle costs, Rockford provided additional documentation to support \$10,000 in costs claimed. We accepted \$4,942 and determined the remaining costs of \$5,058 were incurred outside the Recovery Act budget period. The findings in this report have been updated to reflect the acceptance of the supported costs. As a result, we recommend that the State reimburse \$205,296 to the Federal Government.

STATE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State partially concurred with our first two recommendations and concurred with our last two recommendations. Regarding the first recommendation, the State reviewed Rockford's Recovery Act ledgers and determined that \$6,615 in entertainment costs (unused movie tickets) were "returned to the Recovery Act"; thus, the State believes such costs should be allowable. Regarding the second recommendation, the State worked with Rockford to develop detailed timesheets allocating computer usage charges; thus, the State believes that \$41,805 in such charges should be allowable. Nothing in the State's comments caused us to revise our findings and recommendations.

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INTRODUCTION

BACKGROUND

The American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), authorized supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization. The Recovery Act provided \$1 billion to the Community Services Block Grant (CSBG) program for fiscal years (FY) 2009 and 2010. As with annually appropriated CSBG funds, Recovery Act funds were to be used to reduce poverty, revitalize low-income communities, and help low-income Americans. In addition, CSBG services funded by the Recovery Act were to be provided on or before September 30, 2010.

Community Services Block Grant Program

The CSBG program was reauthorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P. L. No. 105-285 (CSBG Act), to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF), Office of Community Services, administers the CSBG program.

The CSBG program funds a State-administered network of more than 1,100 local community action agencies (CAA) that deliver programs and services to low-income Americans. The CAAs provide services addressing employment, education, better use of available income, housing, nutrition, and health to combat the causes of poverty. Recovery Act award funds were intended to cover additional costs for the same types of services.

Illinois Department of Commerce and Economic Opportunity

In the State of Illinois, the Department of Commerce and Economic Opportunity, Office of Community Development (State) was responsible for approving CAAs' applications for CSBG Recovery Act funds and monitoring CAAs' compliance with Federal requirements. Under the Recovery Act, the State was awarded \$47,232,781 in CSBG funds for FYs 2009 and 2010.

City of Rockford, Human Services Department

The City of Rockford, Human Services Department (Rockford) is the designated public CAA for Winnebago and Boone Counties. Rockford provides services to individuals and families within Rockford as well as in greater Winnebago and Boone Counties. CSBG services are administered by the Community Services Division. Its goal is to promote self-help activities and encourage self-sufficiency among low income individuals and families.

For the period May 1, 2009, through September 30, 2010, the State awarded Rockford \$1,062,800 in CSBG Recovery Act funds (the award).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether selected CSBG Recovery Act costs that the State claimed for Rockford's program expenditures were allowable under the terms of the Recovery Act award and applicable Federal requirements.

Scope

We reviewed \$598,888 of the \$1,062,800 claimed by Rockford under its CSBG Recovery Act award with the State of Illinois for the period of May 1, 2009, through September 30, 2010. This review is part of a series of audits planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act. We did not review the overall internal control structure of the State or of Rockford. Rather, we reviewed only the internal controls that pertained to our objective.

We conducted our audit from November 2011 to March 2012 and performed fieldwork at Rockford's office in Rockford, Illinois.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations and guidance;
- reviewed the State's CSBG ARRA State plan for the period May 1, 2009, through September 30, 2010;
- reviewed contractual agreements between the State and Rockford for the period May 1, 2009, through September 30, 2010;
- reviewed Rockford's board of directors' meeting minutes;
- reviewed Rockford's accounting policies and procedures;
- interviewed State officials to gain an understanding of their fiscal and program monitoring procedures;
- interviewed Rockford officials to gain an understanding of the costs charged under the award;
- reviewed the State's fiscal and program monitoring reports;
- reviewed correspondence between the State and Rockford officials;

- reviewed Rockford’s audited financial statements for calendar year 2009 and 2010;
- reconciled the costs that the State claimed under the award with Rockford’s general ledger;
- judgmentally selected and reviewed 127 transactions totaling \$277,469 (\$13,785 in salary and related costs and \$263,684 in non-salary costs) based on risk factors including whether the transactions:
 - were high dollar;
 - were recorded near the end of the award period or outside of the award period; or
 - appeared to be disproportionately allocated to the CSBG Recovery act program;
- judgmentally selected and reviewed seven subcontractor agreements totaling \$321,419 based on the first risk factor noted above; and
- discussed findings with the State and Rockford officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

Of the \$598,888 in CSBG Recovery Act costs that the State claimed on behalf of Rockford and that we reviewed, \$251,796 was allowable under the terms of the Recovery Act award and applicable Federal requirements. The State claimed \$205,296 in unallowable costs on behalf of Rockford, including:

- \$123,530 in costs that were inadequately documented,
- \$72,669 in costs charged outside the award period, and
- \$9,097 in entertainment costs.

In addition, the State claimed \$141,796 in costs that may not have been allocable to the Recovery Act award and thus were potentially unallowable.

The unallowable costs claimed on behalf of Rockford occurred because Rockford did not follow its policies and procedures requiring costs be supported with source documentation, as well as comply with Recovery Act award and Federal requirements. The potentially unallowable costs

the State claimed on behalf of Rockford occurred because Rockford did not have adequate levels of review in place to ensure that costs charged to the Recovery Act award, including subcontractor costs, were properly allocated in compliance with 2 CFR pt. 225.

UNALLOWABLE COSTS

Federal Requirements

Section 678D(a)(1)(B) of the CSBG Act requires that States that receive CSBG funds ensure that cost and accounting standards of the Office of Management and Budget (OMB) apply to a recipient of the funds under this subtitle. Local governments are subject to 45 CFR pt. 74. Federal regulations (45 CFR § 74.27(a)) state that the allowability of costs incurred by local governments will be determined in accordance with 2 CFR pt. 225, *Cost Principles for State, Local, and Indian Tribal Governments*.

Pursuant to 2 CFR pt. 225, App. A, C.1.a., C.3.a. and C.1.j., to be allowable under a Federal award, program costs must be reasonable, allocable, and adequately documented.

A cost that benefits both a Federal award and other work is allocable to a Federal award if the cost can be distributed in reasonable proportion to the benefits received. Any cost allocable to a particular award or other cost objective may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by terms of the award (2 CFR 225, App. A, C.3.a., C.3.c.).

Pursuant to 2 CFR pt. 225, App. B, 8.h.(4), salary and wage costs should be based on documented payrolls and the distribution to awards must be supported by personnel activity reports unless a substitute system has been approved by the cognizant Federal agency.

Pursuant to 2 CFR pt. 225, App. B, 14, the costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows) are unallowable.

Pursuant to 45 CFR 74.71(b), grantees must liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions unless an extension is granted by the HHS awarding agency. Further, ACF Information Memorandum Transmittal No. 109, dated April 9, 2009, states that, in obligating and expending CSBG Recovery Act funds, "... services must be provided on or before September 30, 2010, and liquidated on or before December 29, 2010."

Costs Inadequately Documented

The Rockford did not adequately document \$123,530 in costs claimed to the Recovery Act award. Rockford entered into an agreement to fund \$100,000 for a local neighborhood development organization. Although the organization stated this amount went towards salaries, it did not provide personnel activity reports to support such costs. For \$23,530 in costs incurred

by subcontractors, neither Rockford nor its subcontractors were able to provide invoices or receipts to adequately support the costs. For example, a subcontractor was awarded \$15,000 to provide educational and social services to 100 low income youths within Boone and Winnebago counties, however no documentation was provided for costs incurred because the organization closed its business and the director was not able to be located. Rockford claimed \$8,530 in subcontractor costs such as supplies and meeting expenses for which documentation supporting the costs was inadequate.

Rockford claimed these unallowable costs to the Recovery Act award because it did not follow its policies and procedures requiring costs be supported with source documentation. Due to the lack of adequate documentation, we were unable to determine if these costs were incurred specifically for the purpose of the Recovery Act award, benefitted the CSBG program, or were necessary for the overall operation of the organization.

Costs Incurred Outside the Recovery Act Budget Period

Rockford charged \$72,669 in costs to the Recovery Act award that were incurred outside the budget period of May 1, 2009, through September 30, 2010. Of this amount, we obtained receipts totaling \$72,134 which consisted of various subcontractor expenses for personnel, supplies, meeting and vehicle lease expenses made prior to and after the contracted period. Rockford was able to provide documentation for program expenses totaling \$535, however, the receipts showed that the purchases were made after September 30, 2010.

Although Rockford had policies and procedures in place to address the monitoring of financial reports, its policies and procedures did not specifically address the Recovery Act requirement that only purchases made within the award period were allowable.

Costs Charged for Entertainment

Rockford charged \$9,097¹ in entertainment costs to the Recovery Act award. The entertainment costs included the rental of a movie theater which was used to host a movie event for a local youth group. In addition, costs were claimed for paintballing relating to a local youth group retreat. Rockford did not provide an explanation for us to determine how these costs related to the overall goal of the Recovery Act award.

Rockford claimed these unallowable costs to the Recovery Act award because it did not perform an adequate review of expenses to ensure that costs claimed were in compliance with Federal requirements.

¹ Entertainment costs charged to the program include movie theater rental (\$8,717) and paintballing (\$380).

POTENTIALLY UNALLOWABLE COSTS

Costs Potentially Not Allocable

Rockford allocated \$141,796 in certain costs claimed by Rockford and subcontractors that may not have been allocable to the Recovery Act award. Neither Rockford nor the subcontractors were able to provide adequate documentation to support the full charge to the CSBG award. For example, Rockford directly charged \$41,805 to the award for computer usage costs which may not be entirely allocable to this award. Also, Rockford directly charged \$4,000 of rent costs for an outreach office however, an allocation methodology used to determine the rent costs was not provided. These computer usage and rent costs benefitted multiple programs while the documentation provided was inadequate to show that these costs related solely to the Recovery Act award. In addition, Rockford charged \$95,991 in subcontractor salary and training costs that were allocated to the Recovery Act award. The subcontractor does not require personnel activity reports for its organization. Furthermore, the subcontractor directly charged training expenses to the award. Without complete and accurate supporting documentation regarding personnel activity, we could not determine whether the subcontractor salary and training costs were allocable to the Recovery Act award in reasonable proportion to the benefits received.

Rockford charged these potentially unallowable costs to the Recovery Act award because it had inadequate monitoring procedures to ensure that costs charged to the Recovery Act award, including subcontractor costs, were properly allocated in compliance with 2 CFR pt. 225. We are deferring the \$141,796 in questionable charges to the State, which should determine the allowable amount and refund the unallowable amount to the Federal government.

LACK OF ADEQUATE MONITORING PROCEDURES

The State did not have adequate monitoring procedures to ensure that the CSBG Recovery Act costs claimed on behalf of Rockford's program expenditures were allowable, allocable, and adequately supported in accordance with terms of the Recovery Act award and applicable Federal requirements. The State conducted on-site fiscal reviews of Rockford's program expenditures and concluded that the transactions it reviewed were traced without difficulty. The State however, did not review subcontractor expenses and only verified that a contract existed. We determined that Rockford was not always in compliance with the CSBG ARRA Federal and State rules, regulations and policies. Rockford claimed costs that were not supported with adequate documentation, costs that were incurred outside the Recovery Act award period as well as costs that were unallowable under Federal requirements. In addition, Rockford claimed potential unallowable costs that may not be entirely allocable to the Recovery Act award.

RECOMMENDATIONS

We recommend that the State:

- return to the Federal Government unallowable costs totaling \$205,296,

- work with Rockford to determine what portion of the \$141,796 is allowable and refund to the Federal government any amount determined to be unallowable,
- ensure that Rockford revises its policies and procedures regarding the adequate documentation of all costs charged under Federal awards and the charging of costs during the award period, and
- ensure that Rockford revises its monitoring procedures to ensure that costs charged to Federal awards, including subcontractor costs, are in compliance with applicable Federal requirements.

ROCKFORD COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments to our draft report, Rockford did not concur with our first recommendation, did not address our second recommendation, and concurred with our third and fourth recommendations. Regarding our first recommendation, Rockford provided additional documentation to support salary, leased vehicle, and a portion of the supply costs that we determined to be inadequately documented. The Agency's written comments are included as Appendix A.

After reviewing and verifying the additional documentation provided by Rockford, we maintain the costs claimed for salary and supplies are inadequately documented. For the leased vehicle costs, Rockford provided additional documentation to support \$10,000 in costs claimed. We accepted \$4,942 and determined the remaining costs of \$5,058 were incurred outside the Recovery Act budget period. The findings in this report have been updated to reflect the acceptance of the supported costs. As a result, we recommend that the State reimburse \$205,296 to the Federal Government.

STATE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State partially concurred with our first two recommendations and concurred with our last two recommendations. Regarding the first recommendation, the State reviewed Rockford's Recovery Act ledgers and determined that \$6,615 in entertainment costs (unused movie tickets) were "returned to the Recovery Act"; thus, the State believes such costs should be allowable. Regarding the second recommendation, the State worked with Rockford to develop detailed timesheets allocating computer usage charges; thus, the State believes that \$41,805 in such charges should be allowable. The State's comments are included in their entirety as Appendix B.

Nothing in the State's comments caused us to revise our findings and recommendations. On numerous occasions, we requested documentation related to the return of entertainment costs to the Recovery Act award however, the State was unable to provide adequate documentation to support that the \$6,615 was returned. For the \$41,805 in computer usage charges, the detailed timesheets the State developed with Rockford were not available during the course of our review and thus, we are unable to determine what portion of these charges are allowable under the Recovery Act award.

APPENDIXES

APPENDIX A: ROCKFORD COMMENTS

Excellence Everywhere



George Davis
Executive Director
Human Services Department

March 5, 2013

Sheri L. Fulcher
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Audit Services, Region V
233 North Michigan, Suite 1360
Chicago, IL 60601

RE: Report A-05-12-00012

Dear Ms. Fulcher:

This letter is in response to your letter and draft report dated February 27, 2013 titled "*Rockford Human Services Did Not Always Charge Allowable Costs to the Community Services Block Grant-Recovery Act Program*". Your letter and report were received by our Department on Friday, March 1, 2013.

While we acknowledge that our documentation of costs fell short of requirements in a number of cases, we wish to point out that we followed the requirements for documentation as we understood them at the time. The haste with which Recovery Act programs and spending were required to be implemented and the desire to minimize undue administrative expenses resulted in shortfalls that are clear in hind-site. However, we are confident that all funds administered by our Department benefited the major objectives outlined in the Recovery Act in supporting our local economy and creating or retaining jobs. We will certainly learn from the results of the OIG's monitoring review in terms of ensuring that we have adequate monitoring and documentation controls in place and have already implemented several changes in our practices – especially as it relates to sub-grants.

While we found the OIG monitoring process to be thorough, we also experienced a lack of clarity from the CSBG Recovery Act guidelines both with our office and with sub-grant recipients regarding the audit process. Several communications seemed to be required before our office and our sub-grant recipients understood what was being requested and how we could respond. While some of this confusion was due to not knowing the expectations up front or

internal breakdowns regarding following standard practices, a significant part of the problem appeared to be the lack of an organized protocol by the auditors. That being said, we do feel that the auditors provided multiple opportunities to provide information over the course of their review. It is also important to understand that during this time, the City of Rockford was one of the ten cities most severely impacted by the Great Recession in the United States, which severely impacted our resources internally as an organization and as a community. We continue to struggle economically. We are hopeful that will be taken into consideration when delivering your final report and recommendations.

Attached to this letter are additional documents related to several of the disallowed amounts and we ask you to consider these in making your final determination. These documents provide additional information related to funding provided to the following organizations:

Rockford Economic Development Council
Rockford YMCA
Veteran's Administration

We appreciate your consideration of these additional documents. Please let me know if you have additional questions.

Sincerely,



George Davis, CCAP
Executive Director

PC: Jim Ryan, City Administrator
Jennifer Jaeger, Director of Community Services
Chuck Freutel, Accountant
File

APPENDIX B: STATE COMMENTS



Illinois
Department of Commerce
& Economic Opportunity

Pat Quinn, Governor

April 30, 2013

Report Number: A-05-12-00012

Ms. Sheri L. Fulcher
Regional Inspector General for Audit Services
U.S. Department of Health & Human Services
Office of Inspector General
233 North Michigan, Suite 1360
Chicago, IL 60601

Dear Ms. Fulcher:

This letter is in response to the U.S. Department of Health and Human Services, Office of Inspector General's final report entitled the *Rockford Human Services Did Not Always Charge Allowable Costs to the Community Services Block Grant – Recovery Act Program*.

The DCEO received \$47,232,781 in 2009 Recovery Act funding. During the same time period as the Recovery Act funds were being spent, DCEO also administered the 2009 and 2010 regular CSBG programs. It should be noted that the DCEO received no administrative funds to administer the Recovery Act funds, and was advised to move quickly to obligate and spend these funds in order to stimulate the economy.

Prior to the awarding of Recovery Act grant funds, the department felt it necessary to meet with the Community Action Agencies to provide direction and instruction on the process for awarding funds, the grant allocation, the need for support documentation, suggested work programs with job creation being the emphasis, the importance of preventing duplication of regular CSBG grant funds, and keeping the Recovery Act funds separate from other funds.

A process similar to the awarding of regular CSBG grant funds was followed with state CSBG staff reviewing individual Community Action Agency Recovery Act applications and budgets. The first Recovery Act funds were obligated in May 2009. During the course of the Recovery Act, several meetings were held to discuss issues and concerns, and again emphasize the importance of documentation and separation of funds.

Following is DCEO's response to the OIG findings although DCEO concurs with most of the OIG findings, with the exception of the finding that relates to entertainment and the one for lack of monitoring.

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Ms. Fulcher
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UNALLOWABLE COSTS

Costs Inadequately Documented

The OIG finding states that Rockford Human Services did not adequately document \$123,530 in costs claimed to the Recovery Act award. Rockford entered into an agreement to fund \$100,000 for a local neighborhood development organization. Although the organization stated this amount went towards salaries; it did not provide personnel activity reports to support such costs. For \$23,530 in costs incurred by subcontractors neither Rockford nor its subcontractors were able to provide invoices or receipts to adequately support the costs.

DCEO Response: The DCEO is in concurrence with this finding. The DCEO will work with Rockford and all Community Action Agencies (CAAs) to ensure that all applicable federal rules and regulations specific to the CSBG grant awards are being followed. The DCEO will also work with Rockford to ensure it is following its own policies and procedures. The DCEO will continue to encourage Rockford and all CAAs to monitor subcontractors on a regular basis to ensure costs are being charged correctly, and adequate support documentation is on file.

Subtotal Unallowable Costs: \$123,530

Costs Incurred Outside the Recovery Act Budget Period

The OIG finding states that Rockford Human Services charged \$72,669 in costs to the Recovery Act award that were incurred outside the budget period of May 1, 2009, through September 30, 2010. Of this amount, receipts were obtained totaling \$72,669 which consisted of various subcontractor expenses for personnel, supplies, meeting and vehicle lease expenses made prior to and after the contracted period.

DCEO Response: The DCEO is in concurrence with this finding. The DCEO will work with Rockford and all Community Action Agencies to ensure that all applicable federal rules and regulations specific to the CSBG grant awards are being followed. The DCEO will also work with Rockford to ensure it has appropriate policies and procedures that not only address the need for proper support documentation, but also that expenses must be incurred during the term of the grant/contract. The DCEO will continue to encourage Rockford and all CAAs to monitor subcontractors on a regular basis to ensure costs are being charged correctly, adequate support documentation is on file, and expenses were incurred during the grant/contract term.

Subtotal Unallowable Costs: \$72,669

Costs Charged for Entertainment

The OIG finding states that Rockford charged \$9,097 in entertainment costs to the Recovery Act award. The entertainment costs included the rental of a movie theater which was used to host a movie event for a local youth group. In addition, costs were claimed for paintballing relating to a local youth group retreat. Rockford did not provide an explanation that allowed the OIG to determine how these costs related to the overall goal of the Recovery Act award.

Ms. Fulcher
 April 30, 2013
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DCEO Response: The DCEO is in concurrence with part of this finding because of lack of documentation and demonstrated benefit to low-income clients. The DCEO concurs with the paintball finding in the amount of \$380. The DCEO has reviewed Rockford Recovery Act ledgers and see that a total of \$6,614.66 was reimbursed for unused movie tickets. Since Rockford is able to demonstrate the funds were returned to the Recovery Act, the DCEO believes this part of the finding should be reduced.

Subtotal Unallowable Costs: \$2,481.84

Total Unallowable Costs: \$198,680.84

POTENTIALLY UNALLOWABLE COSTS

Costs Potentially Not Allocable

The OIG finding states that the Rockford allocated \$141,796 in certain costs claimed by Rockford and subcontractors that may not have been allocable to the Recovery Act award. Neither Rockford nor the subcontractors were able to provide adequate documentation to support the full charge to the CSBG award. Without complete and accurate supporting documentation, the OIG could not determine whether the subcontractor costs were allocable to the Recovery Act award in reasonable proportion to the benefits received. Of that amount, \$41,805 is for computer usage costs which may not be entirely allocable to this award.

DCEO Response: The DCEO is in concurrence with most of this finding. The DCEO did/does conduct on-site monitor of the computer usage for the Rockford Human Services Department. Since the DCEO is familiar with the Rockford CSBG staff and has worked with the Rockford Financial Office, the DCEO believes these costs (\$41,805) should be allowed. The DCEO has worked with Rockford to develop detailed timesheets that will be used to allocate computer usage charges.

The DCEO will work with Rockford and all Community Action Agencies to ensure that all applicable federal rules and regulations specific to the CSBG grant awards are being followed. The DCEO will also work with Rockford to ensure it is following its own policies and procedures.

Total Unallowable Costs: \$99,991

LACK OF ADEQUATE MONITORING PROCEDURES

The OIG finding states that the State does not have adequate monitoring procedures to ensure that the CSBG Recovery Act costs claimed for Rockford's program expenditures were allowable, allocable, and adequately supported in accordance with terms of the Recovery Act award and applicable Federal requirements.

DCEO Response: The DCEO does not concur with this finding. The CSBG Recovery Act funds were monitored by DCEO CSBG staff for both program and fiscal compliance. The same staff was also

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required to monitor the regular CSBG program to ensure compliance. The DCEO received no administrative funds with which to monitor the Community Action Agencies' use of the Recovery Act funds, but we made a conscious decision to monitor as time would allow because of the importance of accountability and transparency. The DCEO used regular CSBG funds to conduct monitoring of the Recovery Act funds although only 2 to 2.5 days were allocated for each visit in

order to conduct a fiscal review of all 36 Community Action Agencies and one statewide migrant organization. Most of Rockford's findings relate to contracts/subcontracts. Because of the large injection of Recovery Act funds, CAAs looked for new partnerships which sometimes resulted in contracts/subcontract. Without Recovery Act administrative resources to hire additional staff, existing CSBG staff did not have sufficient time to adequately review contracts/subcontracts.

Since the first preliminary OIG reports were received, DCEO has stated during meetings with the Community Action Agencies the issues and concerns identified during the OIG reviews, and provided instruction on correcting or avoiding the situation. DCEO CSBG staff has also updated monitoring tools to reflect some of the issues identified during the OIG reviews including the review of contracts. DCEO will continue to provide training and technical assistance when issues or concerns are identified.

In conclusion, DCEO believes that based on the this review a total of \$298,671.84 is unallowable and should be returned to the U. S. Department of Health and Human Services in unrestricted funds. Once this report is final, DCEO will instruct Rockford Human Services to reimburse DCEO with unrestricted funds so that DCEO can reimburse the U.S. Department of Health and Human Services.

Should you have questions or wish to discuss this response, please feel free to contact Ms. Gail Hedges at 217/785-1709 or via e-mail at gail.hedges@illinois.gov.

Sincerely,



Adam Pollet,
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500 E. Monroe Street
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Cc: Frankie Atwater, Acting Deputy Director, DCEO
Gail Hedges, CSBG Program Manager