

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CROWLEY'S RIDGE
DEVELOPMENT COUNCIL, INC.,
CLAIMED UNALLOWABLE COSTS
UNDER A RECOVERY ACT GRANT**

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



Patricia M. Wheeler
Regional Inspector General

August 2012
A-06-11-00058

Office of Inspector General

<http://oig.hhs.gov>

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EXECUTIVE SUMMARY

BACKGROUND

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998 (CSBG Act), P.L. No. 105-285, to provide funds to alleviate 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 1,000 local Community Action Agencies (CAA) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income. The CSBG program awarded \$643 million in fiscal year (FY) 2008, \$1.7 billion in FY 2009, and \$689 million in FY 2010.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, provided an additional \$1 billion to ACF for the CSBG program. CSBG Recovery Act funds were distributed to CAAs using an existing statutory formula. The primary objective of the CSBG Recovery Act was to provide assistance to States and local communities, working through a network of CAAs and other neighborhood-based organizations, for the reduction of poverty, revitalization of low-income communities, and empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient.

Section 676(a) of the CSBG Act requires each State to designate an appropriate State agency as the lead agency for carrying out the State's CSBG program activities. In Arkansas, the Department of Human Services, Office of Community Services (the State), was the lead agency during our audit period. The State is responsible for approving Recovery Act grant applications from CAAs and monitoring them for compliance with program requirements. The State received \$13,595,871 in Recovery Act funds for Arkansas' CSBG program.

Crowley's Ridge Development Council, Inc. (the Agency), is a nonprofit CAA providing services to the citizens of eight counties in Northeast Arkansas. The State awarded the Agency \$1,163,269 in CSBG grant funds for FY 2010 and \$1,490,365 in CSBG Recovery Act funds for the period July 1, 2009, through September 30, 2010.

OBJECTIVE

Our objective was to determine whether the State claimed selected CSBG Recovery Act costs on behalf of the Agency that were allowable under the terms of the grant and applicable Federal regulations.

SUMMARY OF FINDINGS

Of the \$459,510 in CSBG Recovery Act costs that the State claimed on behalf of the Agency and that we reviewed, \$344,090 was allowable under the terms of the grant and applicable Federal regulations. However, the State claimed \$27,994 on behalf of the Agency in unallowable costs

for professional services that were not allocable to the program.

In addition, the Agency's documentation was inadequate, and, therefore, we could not determine whether \$87,426 in accounting services and facility costs were allocated correctly under the terms of the grant and applicable Federal requirements. We are deferring the questionable allocations to the State agency, which should determine the correct allocations and refund any unsupported costs to ACF. The Agency also did not competitively bid the purchase of seven vehicles, each of which cost more than \$25,000.

These deficiencies occurred because the Agency did not follow its policies and procedures related to indirect and shared costs and procurement.

RECOMMENDATIONS

We recommend that the State:

- refund \$27,994 in unallowable professional services costs to ACF,
- work with the Agency to determine the correct allocation for the \$87,426 in inadequately documented claims for accounting services and facility costs and refund any unsupported amounts to ACF,
- ensure that the Agency follows its policies and procedures for allocating indirect and shared costs, and
- ensure that the Agency adheres to the State requirement on competitive bidding for purchases over \$25,000.

CROWLEY'S RIDGE DEVELOPMENT COUNCIL, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the Agency disagreed with the findings. The Agency's comments are included in their entirety as Appendix A. Nothing in the Agency's comments caused us to change our findings and recommendations.

STATE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State concurred with three of our recommendations but disagreed with our recommendation on unallowable professional services costs. The State said that other Agency programs shared in the total cost of professional services and that it would review all audit costs for the CSBG Recovery Act period and refund any unsupported amounts. The State also said that it would follow up with the Agency on all recommendations by September 30, 2012. The State's comments are included in their entirety as Appendix B. Nothing in the State's comments caused us to change the finding or recommendation with which the State disagreed.

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INTRODUCTION

BACKGROUND

Community Services Block Grant Program

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998 (CSBG Act), P.L. No. 105-285, to provide funds to alleviate 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 1,000 local Community Action Agencies (CAA) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income. The CSBG program awarded \$643 million in fiscal year (FY) 2008, \$1.7 billion in FY 2009, and \$689 million in FY 2010.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, provided an additional \$1 billion to ACF for the CSBG program. Recovery Act funds for the CSBG program were distributed to CAAs using an existing statutory formula. The primary objective of these funds was to provide assistance to States and local communities, working through a network of CAAs and other neighborhood-based organizations, for the reduction of poverty, revitalization of low-income communities, and empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient.

Arkansas Department of Human Services

Section 676(a) of the CSBG Act requires each State to designate an appropriate State agency as the lead agency for carrying out the State's CSBG program activities. In Arkansas, the Department of Human Services, Office of Community Services (the State), was the lead agency during our audit period. The State is responsible for approving Recovery Act grant applications from CAAs and monitoring them for compliance with program requirements. The State received \$13,595,871 in Recovery Act funds for Arkansas' CSBG program.

Crowley's Ridge Development Council, Inc.

Crowley's Ridge Development Council, Inc. (the Agency), is a nonprofit CAA providing services to the citizens of eight counties in Northeast Arkansas. The State awarded the Agency \$1,163,269 in CSBG grant funds for FY 2010 and \$1,490,365 in CSBG Recovery Act funds for the period July 1, 2009, through September 30, 2010.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State claimed selected CSBG Recovery Act costs on

behalf of the Agency that were allowable under the terms of the grant and applicable Federal regulations.

Scope

We reviewed \$459,510 of the \$1,490,365 claimed by the Agency under its CSBG Recovery Act agreement with the State of Arkansas for the period July 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 through the Recovery Act. We did not perform an overall assessment of the Agency's internal control structure. Rather, we reviewed only the internal controls that pertained to our objective. We performed fieldwork at the Agency's administrative office in Jonesboro, Arkansas, in August and September 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal requirements;
- confirmed that the Agency was not excluded from receiving Federal funds;
- reviewed the terms and conditions of the CSBG Recovery Act agreement between the Agency and the State;
- reviewed the Agency's policies and procedures related to the CSBG Recovery Act program;
- reviewed the minutes from the Agency's board of directors meetings and organizational charts;
- reviewed the Agency's annual Office of Management and Budget (OMB) Circular A-133-mandated audit reports for FYs 2008 through 2011;
- reconciled the Agency's CSBG Recovery Act expenditures and fund requests for the year ended September 30, 2010, to its accounting records;
- judgmentally selected and reviewed 72 transactions totaling \$459,510 (\$13,904 in salary and related costs and \$445,606 in nonsalary costs) based on risk factors such as whether the transactions:
 - were high dollar,
 - were recorded near the end of or after the grant period, or
 - appeared to be disproportionately allocated to the CSBG Recovery Act program; and

- discussed our findings with Agency 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 objective.

FINDINGS AND RECOMMENDATIONS

Of the \$459,510 in CSBG Recovery Act costs that the State claimed on behalf of the Agency and that we reviewed, \$344,090 was allowable under the terms of the grant and applicable Federal regulations. However, the State claimed \$27,994 on behalf of the Agency in unallowable costs for professional services that were not allocable to the program.

In addition, the Agency's documentation was inadequate, and, therefore, we could not determine whether \$87,426 in accounting services and facility costs were allocated correctly under the terms of the grant and applicable Federal requirements. We are deferring the questionable allocations to the State agency, which should determine the correct allocations and refund any unsupported costs to ACF. The Agency also did not competitively bid the purchase of seven vehicles, each of which cost more than \$25,000.

These deficiencies occurred because the Agency did not follow its policies and procedures related to indirect and shared costs and procurement.

UNALLOWABLE COSTS

Federal Requirements

Section 678D(a)(1)(B) of the CSBG Act requires States that receive CSBG funds to ensure that cost and accounting standards of the Office of Management and Budget apply to a recipient of the funds under this subtitle. As a result, ACF determined that nonprofit CAAs are subject to 45 CFR part 74. Federal regulations (45 CFR § 74.27(a)) state that the allowability of costs for nonprofit organizations will be determined in accordance with 2 CFR part 230 (formerly OMB Circular A-122, *Cost Principles for Non-Profit Organizations*).

The cost principles at 2 CFR part 230, Appendix A, section A.4.a(2) and b, state that a cost is allocable to an award if it benefits both the award and other work and can be distributed in reasonable proportion to the benefits received. Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award.

Professional Services

The State, on behalf of the Agency, claimed audit costs totaling \$30,000, of which \$27,994 was not allocable to the CSBG Recovery Act program. The total contracted engagement fee for the

audit was \$39,000. Based on the expenditures of all Federal programs included in the audit, we determined that \$2,006 of the \$39,000 was allocable to the CSBG Recovery Act program. This error occurred because the Agency did not follow its policies and procedures for equitably allocating indirect and shared costs. The Agency's policies and procedures require that audit costs be charged to the audited programs based on estimates from the accounting firm that performed the audit.

INADEQUATE DOCUMENTATION

Federal Requirements

The cost principles at 2 CFR part 230, Appendix A, sections A.4.a(2) and b, state that a cost is allocable to an award if it benefits both the award and other work and can be distributed in reasonable proportion to the benefits received. Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award.

Federal regulations (45 CFR § 74.21(b)) state that grantees must maintain financial management systems that have written procedures for determining the reasonableness, allocability, and allowability of costs. Grantees must also maintain accounting records that are supported by source documentation and maintain financial systems that provide for accurate and complete reporting of grant-related financial data.

Accounting Services

The Agency did not adequately document \$44,433 in claimed costs for accounting services allocated to the CSBG Recovery Act grant. Accounting services were allocated to the CSBG program's Recovery Act funds based on budget estimates rather than in reasonable proportion to the benefits received, such as the number of accounting transactions per grant. This occurred because the Agency did not follow its policies and procedures for allocating indirect and shared costs. The Agency's policies and procedures require that accounting fees be allocated based on the number of accounting transactions per program or grant. We are deferring the questionable allocation to the State, which should determine the correct allocation and refund any unsupported costs to ACF.

Facility Costs

The Agency did not adequately document \$42,993 in claimed facility costs allocated to the CSBG Recovery Act grant. The Agency allocated facility costs based on an unsupported percentage (55 to 65 percent) of the monthly note payment for its main administrative facility rather than in reasonable proportion to the benefits received, such as square footage occupied. This occurred because the Agency did not follow its policies and procedures for allocating indirect and shared costs. The Agency's policies and procedures require that facility costs be allocated based on square footage occupied. We are deferring the questionable allocation to the State, which should determine the correct allocation and refund any unsupported costs to ACF.

COMPETITIVE BIDDING

Federal and State Requirements

Pursuant to 45 CFR § 74.43, grantees shall conduct all procurement transactions in a manner that provides, to the maximum extent practical, open and free competition. Furthermore, 45 CFR § 74.44(a) states that all recipients shall establish written procurement procedures.

Section 3170 of the *Arkansas Community Service Block Grant Policies and Procedures Manual* requires that all purchases over \$25,000 be made only after receiving competitive, sealed bids in response to advertised requests.

Vehicle Purchases

The Agency did not competitively bid on the purchase of seven vehicles, each of which cost more than \$25,000. State and Agency policies and procedures require competitive bids for these purchases. Because the Agency purchased the vehicles through a manufacturer's incentive program,¹ it did not think that bids were required. Although the State approved purchasing the cars through the incentive program, it did not waive the competitive bidding requirement. As a result, the purchases did not provide for open and free competition, and there was no assurance that the vehicles were purchased at the best price.

RECOMMENDATIONS

We recommend that the State:

- refund \$27,994 in unallowable professional services costs to ACF,
- work with the Agency to determine the correct allocation for the \$87,426 in inadequately documented claims for accounting services and facility costs and refund any unsupported amounts to ACF,
- ensure that the Agency follows its policies and procedures for allocating indirect and shared costs, and
- ensure that the Agency adheres to the State requirement on competitive bidding for purchases over \$25,000.

CROWLEY'S RIDGE DEVELOPMENT COUNCIL, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the Agency disagreed with the findings. The Agency stated that the amounts claimed for professional services, accounting services, and facility costs

¹ The manufacturer's incentive program provided a discount to all agencies administering the Weatherization Assistance Program. The Agency administered a grant under the Weatherization Assistance Program and was eligible to participate in the incentive program.

followed guidelines that were approved by the State. The Agency also stated that the vehicles purchased through the manufacturer's incentive program were approved by the State. The Agency provided a copy of an email from the State that discussed the use of the incentive program. The Agency's comments are included in their entirety as Appendix A.

Nothing in the Agency's comments caused us to change our findings and recommendations. Regardless of whether the amounts claimed for professional services, accounting services, and facility costs followed guidelines approved by the State, the amounts claimed were subject to the requirements of 45 CFR part 74 and 2 CFR part 230. We continue to believe that the amounts claimed for professional services, accounting services, and facility costs did not comply with those requirements. We previously reviewed the email from the State and concluded, after consultation with State personnel, that the State approved the use of the incentive program but did not waive the competitive bidding requirement.

STATE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State concurred with three of our recommendations but disagreed with our recommendation related to unallowable professional services costs. The State said that other Agency programs shared in the total cost of professional services and that it would review all audit costs for the CSBG Recovery Act period and refund any unsupported amounts. The State also said that it would follow up with the Agency on all recommendations by September 30, 2012. The State's comments are included in their entirety as Appendix B.

Nothing in the State's comments caused us to change the finding or recommendation with which the State disagreed. We calculated the allowable audit charges based on the total contracted engagement fee of \$39,000 and the ratio of CSBG Recovery Act expenditures to all Federal program expenditures. We modified language in the report to clarify the finding. We continue to believe that the amount claimed did not comply with Federal requirements.

APPENDIXES

APPENDIX A: CROWLEY'S RIDGE DEVELOPMENT COUNCIL, INC., COMMENTS



Crowley's Ridge Development Council, Inc.

A Community Action Partnership Serving Northeast Arkansas Since 1969

P.O. Box 16720 2401 Fox Meadow Lane Jonesboro, AR 72403
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July 2, 2012

Office of Audit Services, Region VI
1100 Commerce Street, Room 632
Attention: Ms. Patricia Wheeler
Dallas, TX 75242

Report Number: A-06-11-00058

Dear Ms. Wheeler:

In response to Finding #1, we can not determine what part of professional services that you are questioning. However, we followed the guidelines that were state approved.

Finding #2 for accounting services and facility costs were also followed by the guidelines with state approval.

Final Finding, CRDC provided a copy of an email from a state employee, Tanny Harper, stating that we could purchase the vehicles using the Ford deal in lieu of state procurement. So, we followed the instructions that we were given by the state.

Please contact us if you should have any further questions.

Sincerely,

Troy Branscum
Executive Director

Cc: Office of Community Services
Attention: Mr. Thomas Green

Enclosure

APPENDIX B: STATE COMMENTS

July 17, 2012

Report Number: A-06-11-00058

Ms. Patricia Wheeler
Regional Inspector General For Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region VI
1100 Commerce Street, Room 632
Dallas, TX 75242

Dear Ms. Wheeler:

Please accept this letter as a response to your letter and the above referenced draft report entitled *Crowley's Ridge Development Council, Inc., Claimed Unallowable Costs Under a Recovery Act Grant*, received on July 16, 2012. Below are the comments on behalf of the Arkansas Department of Human Services, Office of Community Services, which administered the Recovery Act Community Services Block Grant:

OIG RECOMMENDATION #1: Refund \$27,994 in unallowable professional services costs to ACF

STATE RESPONSE

- The State does not concur with Recommendation #1 to refund \$27,994 in unallowable professional services costs to ACF. The draft report indicates the professional services are in reference to audit costs. The report also states that "The Agency did not allocate any portion of the \$30,000 to the other programs that were included in the audit," but we do not concur. The Agency charged \$30,000 in audit costs to the CSBG Recovery Act Program; however, \$30,000 was not the Agency's total audit costs during the grant period. Other Agency programs shared in the total cost of each audit that was completed during the CSBG Recovery Act Program. As a result, we will review documented Agency professional services costs for the period in question, by September 30, 2012, and we will refund any unsupported amounts to ACF.

OIG RECOMMENDATION #2: Work with the Agency to determine the correct allocation for the \$87,426 in inadequately documented claims for accounting services and facility costs and refund any unsupported amounts to ACF.

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STATE RESPONSE

- The State concurs with Recommendation #2. Although our monitoring reviews did not reveal inadequate documentation for accounting services and facility costs that were not allocated correctly under the terms of the grant and applicable Federal requirements, we will further review Agency accounting services and facilities costs to determine the correct allocation for the \$87,426 in question. We will conduct this review by September 30, 2012 and will refund any unsupported amounts to ACF.

OIG RECOMMENDATION #3: Ensure that the Agency follows its policies and procedures for allocating indirect and shared costs.

STATE RESPONSE

- The State concurs with Recommendation #3. We will ensure that the Agency follows its policies and procedures for allocating indirect and shared costs. Policies and procedures for allocating indirect and shared costs are established by each Agency; however, Arkansas CSBG Policies and Procedures require each Agency to maintain an updated Financial Procedures Manual which establishes procedures to meet each fiscal standard as set forth in our requirements. We will follow-up with the Agency, per this recommendation, by September 30, 2012.

OIG RECOMMENDATION #4: Ensure that the Agency adheres to the State requirement on competitive bidding for purchases over \$25,000

STATE RESPONSE

- The State concurs with Recommendation #4. Arkansas CSBG Policies and Procedures include procurement guidelines which require competitive bidding for purchases over \$25,000. Correspondence to the Agency approving the purchase of vehicles through the incentive program stated that Procurement Procedures must be followed. We will follow-up with the Agency, per this recommendation, by September 30, 2012.

Thank you for giving us an opportunity to respond to this report. If you have any questions or need additional information, please contact me or Delia Anderson, CSBG Manager, at (501) 682-8715 or via email – thomas.green@arkansas.gov or delia.anderson@arkansas.gov.

Sincerely,

/Thomas Green

Thomas E. Green, Assistant Director
Office of Community Services