



February 28, 2011

TO: Yolanda J. Butler, Ph.D.
Acting Director
Office of Community Services
Administration for Children and Families

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at the Community Action Agency of New Haven, Inc. (A-01-10-02504)

The attached final report provides the results of our limited scope review at Community Action Agency of New Haven, Inc. In accordance with the American Recovery and Reinvestment Act of 2009, the Office of Inspector General (OIG) will provide oversight and audit of programs, grants, and projects funded by the Act.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. We look forward to receiving your final management decision within 6 months. Please refer to report number A-01-10-02504 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT THE COMMUNITY
ACTION AGENCY OF NEW
HAVEN, INC.**



**Daniel R. Levinson
Inspector General**

**February 2011
A-01-10-02504**

Office of Inspector General

<http://oig.hhs.gov>

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THIS REPORT IS AVAILABLE TO THE PUBLIC
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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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 Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. 105-285, authorized the Community Services Block Grant (CSBG) program to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & 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, and better use of available income.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for States to alleviate causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula. Under the Recovery Act, CSBG services may be expanded to those who are within 200 percent of the poverty line.

In Connecticut, the Department of Social Services (State agency) acts as the lead agency for carrying out State activities for the CSBG program. The State agency is responsible for approving the State's CAA Recovery Act grant applications and monitoring CAAs for compliance with program regulations. The State agency was awarded an additional \$12 million in Recovery Act funds for the State of Connecticut's CSBG program.

Community Action Agency of New Haven, Inc. (CAANH), a nonprofit corporation, offers services to low-income families and individuals. CAANH is funded primarily through Federal, State, and local grants. The core service areas in Connecticut include New Haven, East Haven, Hamden, North Haven, and West Haven. During fiscal year 2009, the State agency awarded CAANH with \$2,431,552 in CSBG grant funds and a CSBG Recovery Act grant totaling \$1,538,789. The CSBG Recovery Act grant covers the period from July 1, 2009, through September 30, 2010. For fiscal year 2009, CAANH received total Federal grant awards of about \$16,160,596.

OBJECTIVE

Our objective was to assess CAANH's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG Recovery Act program in accordance with Federal requirements.

SUMMARY OF FINDINGS

Based on its current financial condition, CAANH's financial viability is uncertain. Significant operating deficiencies also existed at CAANH that impact its ability to manage and account for

Federal funds and its capability to carry out CSBG Recovery Act programs in compliance with Federal requirements. Specifically, CAANH did not ensure that:

- its subcontracts contained evidence of competitive bidding, a clear and accurate description of services, and services were provided to eligible clients;
- its payroll distribution process provided an after-the-fact certification of actual activity performed by salaried employees;
- its CSBG Recovery Act quarterly financial reports were supported by accounting records; and
- it properly accounted for equipment purchased with Federal funds.

In addition, CAANH did not fully comply with Federal requirements for bank deposits and whistleblower protection. The deficiencies occurred because CAANH did not establish adequate controls and procedures. As a result, CSBG Recovery Act funds may be at risk of not being properly accounted for or expended in accordance with Federal requirements.

RECOMMENDATIONS

We recommend ACF work with the State to ensure that CAANH establishes adequate controls and procedures to comply with Federal requirements. In addition, we recommend that CAANH make financial adjustments or produce adequate documentation for unallowable services, activities, and costs.

CAANH COMMENTS

In written comments to our draft report, CAANH generally agreed with our recommendations. CAANH's comments are included in their entirety as the Appendix.

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CAANH COMMENTS

INTRODUCTION

BACKGROUND

Community Service Block Grant Program

The Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. 105-285, authorized the Community Services Block Grant (CSBG) program to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & 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, and better use of available income.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for States to alleviate causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula. Under the Recovery Act, CSBG services may be expanded to those who are within 200 percent of the poverty line.

Connecticut Department of Social Services

In Connecticut, the Department of Social Services (State agency) acts as the lead agency for carrying out State activities for the CSBG program. The State agency is responsible for approving the State's CAA Recovery Act grant applications and monitoring CAAs for compliance with program regulations. The State agency was awarded an additional \$12 million in Recovery Act funds for the State of Connecticut's CSBG program.

The State agency contracts with CAAs for CSBG Recovery Act funding. Contracts with CAAs contain provisions stating that contractors (i.e., CAAs) understand and agree that they shall be liable for any State or Federal audit exceptions and shall return to the State agency all payments to which exception has been taken or which have been disallowed because of such an exception.

Community Action Agency of New Haven, Inc.

Community Action Agency of New Haven, Inc. (CAANH), a nonprofit corporation, offers services to low-income families and individuals. CAANH is funded primarily through Federal, State, and local grants. CAANH also receives grant funds from private sources to supplement Federal and State funding. The core service areas in Connecticut include New Haven, East Haven, Hamden, North Haven, and West Haven. During fiscal year (FY) 2009, the State agency awarded CAANH with \$2,431,552 in CSBG grant funds and a CSBG Recovery Act grant totaling \$1,538,789. The CSBG Recovery Act grant covers the period from July 1, 2009, through September 30, 2010. For FY 2009, CAANH received total Federal grant awards of about \$16,160,596.

Federal Requirements

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete reporting of grant-related financial data, effective control over grant funds, and allocation of costs to all benefitting programs. In addition, grantees must establish written procurement procedures. Grantees are also required to maintain inventory control systems and take periodic physical inventory of grant-related equipment. In addition, pursuant to 45 CFR § 74.27, the allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Nonprofit Organizations*. The CSBG Act establishes the CSBG program and sets the requirements and guidelines for CSBG funds.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess CAANH's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG Recovery Act program in accordance with Federal requirements.

Scope

We conducted a limited review of CAANH's financial viability, financial management system, and related policies and procedures. This limited-scope review is part of a series of reviews planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act. Therefore, we did not perform an overall assessment of CAANH's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective. Our review period for the CSBG Recovery Act program was from inception on July 1, 2009, through May 31, 2010.

We performed fieldwork at CAANH's facility in New Haven, Connecticut, during June and July 2010.

Methodology

To accomplish our objective, we:

- confirmed that CAANH is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed CAANH's application and implementation of the grant awards for Recovery Act funding;

- reviewed CAANH’s policies and procedures related to the CSBG program;
- reviewed CAANH’s by-laws, minutes from Board of Directors meetings, composition of the Board, and organizational chart;
- performed audit steps to assess the adequacy of CAANH’s current financial systems;
- reviewed CAANH’s audited financial statements and audits conducted pursuant to OMB A-133 for FYs 2007 through 2009;
- performed liquidity and stability analyses of CAANH’s finances for FYs 2008 through 2009 to determine whether CAANH was financially viable;
- reconciled CAANH’s CSBG Recovery Act quarterly expenditure report for the period ended March 31, 2010, to its official accounting records and judgmentally selected line items transactions to determine if costs claimed were in accordance with Federal requirements and CAANH policies and procedures; and
- discussed findings with CAANH 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

Based on its current financial condition, CAANH’s financial viability is uncertain. Significant operating deficiencies also existed at CAANH that impact its ability to manage and account for Federal funds and its capability to carry out CSBG Recovery Act programs in compliance with Federal requirements. Specifically, CAANH did not ensure that:

- its subcontracts contained evidence of competitive bidding, a clear and accurate description of services, and services were provided to eligible clients;
- its payroll distribution process provided an after-the-fact certification of actual activity performed by salaried employees;

- its CSBG Recovery Act quarterly financial reports were supported by accounting records; and
- it properly accounted for equipment purchased with Federal funds.

In addition, CAANH did not fully comply with Federal requirements for bank deposits and whistleblower protection. The deficiencies occurred because CAANH did not establish adequate controls and procedures. As a result, CSBG Recovery Act funds may be at risk of not being properly accounted for or expended in accordance with Federal requirements.

FINANCIAL STABILITY

Federal Requirements

Pursuant to 45 CFR § 74.14(a)(2), the HHS awarding agency may impose additional requirements if an applicant or recipient has a history of poor performance, is not financially stable, or has a management system that does not meet the standards in this part.

Poor Financial Stability

Short-Term Liquidity

Financial data indicates that CAANH's financial viability is uncertain. An analysis of CAANH's audited financial statements from FYs 2008 through 2009 raises questions on the organization's financial solvency. Specifically:

- CAANH's current ratio (current assets divided by current liabilities) remained significantly low at 0.36 for both of the last two fiscal years. Generally, for an organization to be considered fiscally sound, its current assets should be valued higher than its current liabilities.
- CAANH's working capital (current assets minus current liabilities) decreased significantly by \$3.65 million in FY 2008 and again by \$3.44 million in FY 2009. The negative net working capital means an organization has poor operating liquidity.

Long-Term Stability

CAANH's total debt (liabilities) for FY 2009 was \$5,389,929, and its total assets were \$2,111,430. Thus, CAANH's liabilities exceed its total assets by 252 percent. In general, the lower an organization's reliance on debt for assets formation, the greater the organization's long-term stability because excessive debt can lead to a heavy interest and principal repayment burden.

Financial instability could result in disruption of services to eligible recipients.

PROCURING SUBCONTRACT SERVICES

Federal Requirements

Pursuant to 45 CFR § 74.43, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. In addition, CAANH procurement procedures require competitive bidding under the following cost thresholds: (1) from \$2,000 to \$9,999, three current written quotes from three different vendors; (2) from \$10,000 to \$19,999, three current written bids must be obtained based upon specifications or a request for proposal provided to vendors; and (3) from \$20,000 or more, a request for proposal must be published in at least three local news outlets.

Under the Recovery Act, CSBG services may be provided to those who are within 200 percent of the poverty line. Furthermore, OMB Circular A-122, Attachment A, part A, § 2 on factors affecting allowability of costs states that to be allowable under an award, costs must be adequately documented.

Lack of Competitive Bids and Unsupported Subcontract Costs

CAANH executed four subcontracts that exceeded the specified thresholds without evidence of competitive bidding or a clear and accurate description of the technical requirements and scope of services for the material(s), good(s), or service(s) to be procured. In addition, our review of subcontract costs totaling \$41,455 for the program period ending March 31, 2010, disclosed payments to four subcontractors without adequate evidence of services rendered to eligible clients. For example, one subcontractor's invoice contained charges for computer literacy training courses. However, the invoice charges for each course billed were not billed at the correct rate or supported by the names of eligible clients served and the dates of attendance.

CAANH did not have adequate controls to ensure that it complied with procurement procedures for price competition. As a result, there is no assurance that the CSBG Recovery Act program benefitted from quality services obtained in a cost effective manner and that services were provided only to eligible clients at the approved rate.

PAYROLL DISTRIBUTION SYSTEM

Federal Requirements

Pursuant to OMB A-122, Attachment B, paragraph 8.m., the distribution of salaries and wages must be supported by personnel activity reports. The activity reports maintained by nonprofit organizations must meet the following standards:

- reflect an after-the-fact distribution of the actual activity of each employee,
- account for the total activity for which each employee is compensated,

- be signed by the employee or by a responsible supervisory official having firsthand knowledge of the activities performed, and
- be prepared at least monthly and coincide with one or more pay periods.

In addition, OMB A-122, Attachment B, paragraph 17 on fundraising costs states that costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.

Inadequate Payroll Distribution Process

CAANH did not ensure its payroll distribution process provided an after-the-fact certification of actual activity performed by salaried employees; rather, CAANH allocated employee efforts based on a predetermined budget. For example, we noted at least one employee with an approved budgeted salary, fringe benefits, and other costs of \$109,100, who charged 100 percent of his or her activity to the CSBG Recovery Act program. However, this individual estimated that about 10 percent of his or her total activity, or \$10,910, would be related to fundraising.

CAANH did not have procedures to ensure that its payroll distributions process (1) reflects actual work performed by staff at least on a monthly basis and (2) identifies and segregates unallowable activity. As a result, CAANH's payroll distribution process does not properly account for Federal funds nor provides for current, accurate, and complete results of CSBG Recovery Act activity.

FINANCIAL REPORTING

Federal Requirements

Pursuant to 45 CFR § 74 21(b), recipients' financial management systems shall provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program. In addition, if the HHS awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for their reports on the basis of an analysis of the documentation on hand.

In addition, OMB Circular A-122, Attachment A, part A, § 2 on factors affecting allowability of costs states that to be allowable under an award, costs must be determined in accordance with generally accepted accounting principles and be adequately documented.

Quarterly Expenditure Report Not Supported by Accounting Records

CAANH did not ensure that its accounting records supported its CSBG Recovery Act quarterly financial reports. Specifically, CAANH's March 31, 2010, quarterly report shows \$281,825 in cumulative Recovery Act expenditures; however, CAANH's accounting records only indicates

\$243,339 in total Recovery Act expenditures. CAANH could not adequately explain the difference of \$38,486 (\$281,825-\$243,339).

CAANH has not established procedures for the preparation of quarterly expenditure reports. The deficiencies in financial reporting were previously identified as a material weakness in CAANH's single audit reports for FYs 2007, 2008, and 2009. As a result, CAANH's quarterly expenditures report do not reflect current, accurate, and complete results of CSBG Recovery Act activity.

PROPERTY MANAGEMENT

Federal Requirements

Pursuant to 45 CFR § 74.34(f), recipients are required to maintain an accurate property management system to account for equipment acquired with Federal funds and federally owned equipment.

In addition, pursuant to 45 CFR § 74.34(f)(3), a recipient shall take a physical inventory of equipment and reconcile the results with the equipment records at least once every two years.

Inadequate Property Management

CAANH did not properly account for equipment purchased with Recovery Act funds. In addition, CAANH did not conduct a physical equipment inventory at least every two years to ensure the accuracy of its equipment records. For example, CAANH's accounting records show that from the inception of the CSBG Recovery Act program on July 1, 2009, to March 31, 2010, a total of \$12,817 in equipment purchases had been charged directly to the CSBG Recovery Act program. This equipment consisted mainly of furniture and computer purchases. However, the inventory records did not contain required information on (1) the source and whether title vests in the applicant or the Federal government; (2) the location, use, and condition of the property; (3) ultimate disposition data; (4) location and condition of the equipment and the date the information was reported; (5) acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost; and (6) how one can calculate the percentage of HHS's share in the cost of the equipment as required.

CAANH did not have adequate property management procedures to conduct physical inventories and identify and account for all Federally owned property. As a result, computer equipment purchased under the CSBG Recovery Act program may be at risk for being lost, stolen, or used without authorization.

BANK DEPOSITS

Federal Requirements

Pursuant to 45 CFR § 74.22(k), “Recipients shall maintain advances of Federal funds in interest bearing accounts.”

Non-interest Bearing Accounts

CAANH did not maintain advances of Federal funds in interest bearing accounts. As of April 30, 2010, CAANH’s deposits in non-interest bearing accounts at one bank exceeded \$770,000. CAANH does not have procedures to ensure that advances of Federal funds are maintained in an interest bearing account as required by Federal regulation. As a result, significant amounts of interest income may not have been realized.

WHISTLEBLOWER PROTECTION

Federal Requirements

Pursuant to Section 1553(a) of the Recovery Act (Whistleblowers Policy), an employee of any non-Federal employer receiving covered funds may not be discharged, demoted, or otherwise discriminated against as a reprisal for disclosing, including a disclosure made in the ordinary course of an employee’s duties, to the Board, an inspector general, the Comptroller General, a member of Congress, a State or Federal regulatory or law enforcement agency, or a person with supervisory authority over the employee. In addition, section (e), *Requirement to Post Notice of Rights and Remedies*, provides that any employer receiving covered funds shall post notice of the rights and remedies provided under this section.

Lack of Policies and Procedures for Whistleblower Protection

CAANH has not established an official policy on whistleblower protection as required by Federal and DSS contract provisions. Although CAANH has drafted a whistleblower policy, its Board of Directors has not approved it nor has it been posted. As a result, CAANH employees are largely unaware that their employer prohibits reprisals against employees who disclose evidence of gross mismanagement; a gross waste; a substantial and specific danger to public health or safety; an abuse of authority; or a violation of law, rule, or regulation related to the implementation or use of covered funds.

RECOMMENDATIONS

We recommend ACF work with the State to ensure that CAANH:

- establish adequate controls to ensure compliance with competitive bidding procedures;
- make a financial adjustment for subcontract services that cannot be supported by evidence of services rendered to eligible clients including the \$41,455 identified in this report;
- establish procedures to ensure that its payroll distributions process reflects actual work performed by staff;
- make a financial adjustment for unallowable fundraising activities including the \$10,910 identified in this report for one individual;
- establish procedures to identify and segregate fundraising activity;
- make a financial adjustment for \$38,486 in costs not adequately supported in its March 31, 2010, quarterly expenditure report or provide the necessary documentation;
- establish procedures to ensure that financial reports such as quarterly expenditures reports reflect current, accurate, and complete results of program activity;
- establish adequate property management procedures to identify and account for all Federally owned property and conduct physical inventories as required;
- establish procedures to ensure that Federal funds are maintained in interest bearing accounts; and
- establish and disseminate official whistleblower policies and procedures.

CAANH COMMENTS

In written comments to our draft report, CAANH generally agreed with our recommendations. CAANH's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: COMMUNITY ACTION AGENCY OF NEW HAVEN, INC. COMMENTS

Community Action Agency of New Haven, Inc.
New Haven, Connecticut

Response to Department Of Health and Human Services Report Number: A-01-10-02504

Submitted by
Mary Orcutt
Director of Finance

January 31, 2011

Michael J. Armstrong
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Auditor Services, Region I
John F. Kennedy Federal Building
Room 2425
Boston, MA 02203

Dear Mr. Armstrong:

Thank you for the opportunity to respond to the validity of the facts and reasonableness of the recommendations in your report entitled "Result of Limited Scope Review at Community Action Agency of New Haven, Inc." dated January 26, 2011.

1. **Procuring Subcontract Services:** CAANH did not ensure that its subcontracts that exceeded the specified thresholds contained evidence of competitive bidding or a clear and accurate description of services to be procured.

CAANH Response: Community Action Agency of New Haven (CAANH) recognizes and respects the importance of following all State and Federal guidelines. The agency also adheres to its own robust policy on competitive bidding.

However, with regard to the CSBG Recovery Act program, the process set out by the State of Connecticut Department of Social Services (DSS) did not support or require competitive bidding. This is to say, if CAANH followed State and Federal guidelines, we could not also comply with the rules as established by DSS.

Although not required by the State, CAANH provided potential partners with clear and accurate descriptions of services to be procured, and sought to acquire competitive bids whenever possible.

The Community Action Agency of New Haven offers pathways to prosperity to those in poverty in the Greater New Haven area through:

◆ Service ◆ Collaboration ◆ Advocacy ◆ Knowledge Generation

Recommendation:

- Establish adequate controls to ensure compliance with competitive bidding procedures.

CAANH Response: CAANH already has adequate controls in place to ensure compliance with competitive bidding procedures. We will be reviewing CAANH's policies and procedures to ensure sufficiency.

- Make a financial adjustment for subcontract services that cannot be supported by evidence of services rendered to eligible clients including the \$41,455 identified in this report.

CAANH Response: CAANH has made an exhaustive review of all files on every participant in the CSBG Recovery Act program. This review found very few participants ineligible or without adequate supporting information. The Agency is reimbursing the Department of Social Services.

2. **Payroll Distribution System:** CAANH did not ensure that its payroll distribution process provided an after-the fact certification of actual activity performed by salaried employees.

Recommendation:

- Establish procedures to ensure that its payroll distribution process reflects actual work performed by staff.

CAANH Response: CAANH has revised its payroll distribution process and has invested in payroll software that supports reporting of actual activity performed by salaried employees.

- Make a financial adjustment for unallowable fund raising activities including the \$10,910 identified in this report for one individual.

CAANH Response: CAANH included fundraising activities in the CSBG Recovery Act program at the request of the State of Connecticut Department of Social Services. CAANH has since made the financial adjustment eliminating all fundraising expenses from the program, including the \$10,910 identified.

- Establish procedures to identify and segregate fundraising activity

CAANH Response: It is CAANH's policy and practice to segregate fundraising activities from program activities. To support this policy and practice, the Agency has invested in financial software and payroll software that further improve our ability to track expenses and create reports.

3. **Financial Reporting:** CAANH did not ensure its CSBG Recovery Act quarterly financial reports were supported by accounting records.

Recommendation: Make a financial adjustment for the \$38,486 in costs not adequately supported in its March 31, 2010 quarterly expenditure report or provide the necessary documentation.

CAANH Response: CAANH does consistently report expenditures in a current, accurate and complete manner. However, expenses accrued in the March 2010 Quarterly Expenditure Report were determined to be inappropriate because the invoice dates were not clear and appeared to indicate an April 2010 dates of service.

Additionally, these accruals were not inputted into the financial software system properly. The correcting adjustment has been made and the appropriate procedure has been reviewed for sufficiency. Documentation of this correction was sent to you September 3, 2010 in response to your initial audit findings.

4. **Property Management:** CAANH did not ensure it properly accounted for equipment purchased with Federal Funds.

Recommendation: Establish adequate property management procedures to identify and account for all Federally owned property and conduct physical inventories as required.

CAANH Response: CAANH maintains an exhaustive inventory of all equipment purchases. This inventory is being augmented and updated to include information to identify and account for all Federally owned property. In addition, equipment is being tagged and physical inventories are being updated.

5. **Bank Deposits:** CAANH did not maintain advances of Federal Funds in interest bearing accounts. As of April 20, 2010 CAANH's deposits in non-interest bearing accounts at one bank exceeded \$770,000. CAANH does not have procedures to ensure that advances of Federal funds are maintained in an interest bearing account as required by Federal regulations

Recommendation: Establish procedures to ensure that Federal Funds are maintained in interest bearing accounts.

CAANH Response: In response to recommendations made during this audit, CAANH has expanded its relationship with several banks, opening interest bearing and non-interest bearing accounts that provide adequate FDIC coverage in order to ensure the security of those funds. This process is

ongoing and we will continue to monitor the balances and types of accounts to ensure that Federal Funds are secure and held in interest bearing accounts.

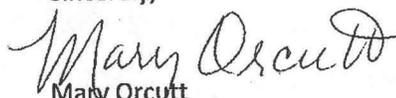
6. **Whistleblower Protections:** CAANH has not established an official whistleblower protection as required by Federal and DSS contract provisions. Although CAANH has drafted a whistleblower policy it has not been approved by the Board of Directors nor has it been posted.

Recommendation: Establish and disseminate official whistleblower policies and procedures.

CAANH Response: The Whistleblower policy was approved by CAANH's Board of Directors at their November 2010 meeting, and is available to employees in the employee handbook; on bulletin boards in common areas; and on the Agency's employee-access website.

Please contact us should you have any questions or need further information.

Sincerely,



Mary Orcutt
Director of Finance