



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

March 22, 2010

TO: Carmen Nazario
Assistant Secretary for Children and Families
Administration for Children and Families

FROM: /Lori S. Pilcher/
Assistant Inspector for Grants, Internal Activities,
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SUBJECT: Administration for Children and Families: Office of Community Services—
Internal Control Review of the Process for Awarding American Recovery and
Reinvestment Act Funds (A-02-09-02014)

The attached final report provides the results of our review of internal controls over the process for awarding American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), funds at the Administration for Children and Families, Office of Community Services. This review was part of the Office of Inspector General's assessment of whether the Department of Health & Human Services is using Recovery Act funds in accordance with legal and administrative requirements and is meeting the accountability objectives defined by the Office of Management and Budget.

The Recovery Act was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. All Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

Our objective was to assess the internal controls the Administration for Children and Families (ACF), Office of Community Services has in place for awarding grants funded under the Recovery Act and to determine whether the controls have been suitably designed.

The internal controls for awarding Recovery Act funds to grantees, as described by management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were complied with satisfactorily

and applied as designed. However, we did not perform procedures to determine the operating effectiveness of these internal controls. Accordingly, we express no opinion on the operating effectiveness of any aspects of the ACF Office of Community Services' internal controls for awarding Recovery Act funds, individually or in the aggregate.

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. Please refer to report number A-02-09-02014 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ADMINISTRATION FOR CHILDREN AND
FAMILIES: OFFICE OF COMMUNITY
SERVICES—INTERNAL CONTROL
REVIEW OF THE PROCESS FOR
AWARDING AMERICAN RECOVERY AND
REINVESTMENT ACT FUNDS**



Daniel R. Levinson
Inspector General

March 2010
A-02-09-02014

Office of Inspector General

<http://oig.hhs.gov>

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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 American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

Every taxpayer dollar spent on the economic recovery must be subject to unprecedented levels of transparency and accountability. The five crucial objectives for the Department of Health and Human Services and its agencies are:

- Recovery Act funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes and every step is taken to prevent instances of fraud, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Projects funded under the Recovery Act ensure program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. An Office of Management and Budget (OMB) memorandum (April 3, 2009) updated initial implementing Recovery Act guidance (February 18, 2009) and requires that all Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement appropriate oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

Office of Community Services

The Community Services Block Grant (CSBG) program provides funds to States, territories, and tribes to alleviate the causes and conditions of poverty in communities. The Administration for Children and Families (ACF), Office of Community Services administers the CSBG program.

The Recovery Act provides \$1 billion to the CSBG program for CSBG community services and for State-level benefits enrollment coordination activities. The program primarily awards mandatory and discretionary grants. Mandatory grants, which account for \$985 million of the CSBG program's Recovery Act distribution, will be awarded to existing grantees on a formula based on poverty level. Discretionary grants, which account for the remaining \$15 million, will

be distributed to new grantees to support the program's training and technical assistance activities.

OBJECTIVE

Our objective was to assess the internal controls the Office of Community Services has in place for awarding grants funded under the Recovery Act and to determine whether the controls have been suitably designed.

SUMMARY OF RESULTS

The internal controls over the grant award process used to award Recovery Act funds, as described by Office of Community Services management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed.

This report is intended to provide a sufficient understanding of the Office of Community Services' grant process for awarding Recovery Act funds to grantees as it pertains to internal control objectives in the following internal control areas:

- authorization and approval: transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority;
- accuracy, completeness, and validity: all transactions should be consistent with the originating data and fairly represent the economic events that actually occurred, and no valid transactions should be omitted;
- physical safeguards and security: physical controls need to be established to secure and safeguard vulnerable assets and to limit access to resources and records to authorized individuals;
- error handling: errors detected at any stage of processing should receive prompt corrective action and be reported to the appropriate level of management; and
- segregation of duties: key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

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INTRODUCTION

BACKGROUND

Recovery Act Requirements

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

According to the Department of Health & Human Services (HHS) Recovery Act Web site,¹ every taxpayer dollar spent on the economic recovery must be subject to unprecedented levels of transparency and accountability. The five crucial objectives for HHS and its agencies are:

- Recovery Act funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes and every step is taken to prevent instances of fraud, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Projects funded under the Recovery Act ensure program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. An Office of Management and Budget (OMB) memorandum (April 3, 2009) updated initial implementing Recovery Act guidance (February 18, 2009) and requires that all Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement appropriate oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

Office of Community Services

The Community Services Block Grant (CSBG) program provides funds to States, territories, and tribes to alleviate the causes and conditions of poverty in communities. The Administration for Children and Families (ACF), Office of Community Services administers the CSBG program. On an annual or biannual basis, States, territories, and tribes submit applications (State plans) for CSBG funds to the Office of Community Services that include: (1) a statement of goals and

¹Accessed at <http://www.hhs.gov/recovery/reports/index.html> on October 29, 2009.

objectives, (2) information on the specific types of activities to be supported, (3) areas and categories of individuals to be served, and (4) the criteria and method used for distributing funds to local agencies.²

The Recovery Act provided \$1 billion to the CSBG program for CSBG community services and for State-level benefits enrollment coordination activities. The program primarily awards mandatory³ and discretionary⁴ grants. Mandatory grants, which account for \$985 million of the CSBG program's Recovery Act distribution, will be awarded to existing grantees on a formula based on poverty level. Discretionary grants, which account for the remaining \$15 million, will be distributed to new grantees to support the program's training and technical assistance activities.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess the internal controls the Office of Community Services has in place for awarding grants funded under the Recovery Act and to determine whether the controls have been suitably designed.

Scope

We assessed the Office of Community Services' internal controls over the grant award process used to award Recovery Act funds to grantees for the reduction of poverty, the revitalization of low-income communities, and the empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient. Our assessment was limited to determining whether existing internal controls adequately achieved the internal control objectives for: (1) authorization; (2) accuracy, completeness, and validity; (3) physical safeguards and security; (4) error handling; and (5) segregation of duties.

We performed fieldwork at ACF's offices in Washington, D.C., from May through June, 2009.

²The CSBG program was authorized by section 680(a) (2) of the Community Opportunities, Accountability, and Training and Educational Services Act of 1998 as amended, P. L. 105-285 (the CSBG Act), to provide funds to alleviate the causes and conditions of poverty in communities. The CSBG funds a State-administered network of more than 1,100 local agencies that create, coordinate, and deliver programs and services to low-income Americans.

³Mandatory grants are initiated when Congress passes a law providing funds for a particular group (e.g., States, territories, tribes, or other eligible jurisdictions). The statute specifies the eligibility requirements for grant recipients. There is no competitive process for obtaining mandatory grants. There are three types of mandatory grants: (i) block, (ii) formula, and (iii) entitlement grants.

⁴Discretionary grant programs are those, which permit the awarding agency, the Office of Community Services, according to specific authorizing legislation, to exercise judgment in selecting the applicant, through a competitive grant process.

Methodology

The internal control environment represents the collective effect of a number of elements in establishing, enhancing or mitigating the effectiveness of specific policies and procedures. To gain an understanding of the Office of Community Services' internal control environment, we:

- reviewed relevant Federal laws and regulations, including Recovery Act guidance issued by the Office of Management and Budget, that the Office of Community Services must follow for awarding grants;
- reviewed the Office of Community Services' organizational structure, including segregations of functional responsibilities, policy statements, operating manuals, and personnel policies;
- interviewed ACF management as well as operations, administrative and other personnel responsible for developing, assuring adherence to, and applying internal controls; and
- reviewed the grant award process for three grants funded with Recovery Act funds.

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.

RESULTS OF REVIEW

The internal controls over the grant award process used to award Recovery Act funds, as described by Office of Community Services management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed.

This report provides a sufficient understanding of the Office of Community Services' grant process for awarding Recovery Act funds to grantees as it pertains to internal control objectives in the following internal control areas:

- authorization and approval: transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority;
- accuracy, completeness, and validity: all transactions should be consistent with the originating data and fairly represent the economic events that actually occurred, and no valid transactions should be omitted;
- physical safeguards and security: physical controls need to be established to secure and safeguard vulnerable assets and to limit access to resources and records to authorized individuals;

- error handling: errors detected at any stage of processing should receive prompt corrective action and be reported to the appropriate level of management; and
- segregation of duties: key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

AUTHORIZATION AND APPROVAL

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Grant Eligibility Requirements Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy

- ACF and HHS, Office of General Counsel management approve eligibility requirements used in evaluating grant eligibility.
- ACF and Office of General Counsel management review and approve the SF-424, Application for Federal Assistance prior to their being made available to the non-profit organizations and other State entities that are eligible to apply for discretionary funding.
- ACF management authorizes specific personnel to approve grant applications. Management designates which personnel can review and approve grant applications and provides training for these employees prior to the beginning of the grant cycle.

Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Information and Methods Used to Publicize the Program Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy

- OMB implementation guidance for the Recovery Act requires Federal agencies to provide information on the funding notifications made for all award types on <http://www.recovery.gov> with a link to the agency's Web site.
- Before any document is posted on ACF's Web site, it must be approved by several offices.

Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That Grant Application Processing Procedures Are Established and in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy

- The Office of Community Services' grant application processing procedures are defined and communicated in approved formal procedures manuals.
- The Office of Community Services produces grants cycle memos, program instructions, and program guidance to grantees.

- The Office of Community Services management approves all changes to program procedures.
- ACF's Office of Grants Management conducts internal audits relating to grants through the ACF's Office of Financial Services, Financial Integrity Division.
- Personnel authorized to approve grant applications are required to complete four levels of coursework to become certified as grants officers.

Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That Grantee Procedures for Control, Use, and Reporting of Grant-Funded Operations Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy

- Office of Community Services grantees are required to meet the standards and requirements for financial management systems set forth or referenced in 45 CFR §§ 74.21 or 92.20, as applicable. Requirements for grantees' financial and administrative systems are included in the ACF Grants Policy Statement and posted on the Grants Administration, Tracking & Evaluation System (GATES) as a resource to grants management staff.

Internal Control Objective 5: Internal Controls Provide Reasonable Assurance That Grant Requirements Are Noted and in Place

- Upon approval of a State plan, ACF issues a Notice of Grant Award to the grantee. In addition, the grantee is also provided with a copy of the terms and conditions of the grant. This document mandates and specifies the manner in which funds are to be used and the manner in which the grantee is to conduct business.

ACCURACY, COMPLETENESS, AND VALIDITY

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Program Objectives Are Achieved in an Economical and Efficient Manner

- The Office of Community Services requires that individuals involved in the grant award process be sufficiently qualified and receive adequate training.
- The ACF uses a predefined template system to ensure that all program announcements follow OMB standards as well as all HHS and ACF policies.

Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Procedures Used to Process and Approve Grant Applications and Related Transactions Are Efficient

- Grant applicants may submit either the electronic or the hard copy version of the SF-424, Application for Federal Assistance. ACF uses several systems to track and fund grants,

Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That the Agency Has Mechanisms in Place to Timely Award Grant and Contract Funds

- The Office of Community Services issued on April 10, 2009 Information Memorandum 109 to States and territories and Information Memorandum 110 to tribes in which it detailed the deadlines and effective dates for fiscal year 2009 State plans. Pursuant to the information memoranda, States, territories, and tribes must have submitted their State plans to the Office of Community Services by May 29, 2009. Upon approval by the Office of Community Services, State plans became effective October 1, 2009.
- The Office of Community Services limited CSBG funds distributed as a result of the Recovery Act to existing grantees previously approved for funding under fiscal year 2009 appropriations and to new grantees on a competitive basis to support CSBG training and technical assistance activities.

Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That Only Those Grant Request That Meet Eligibility Requirements Are Approved

- ACF provides guidance to personnel involved in reviewing State plans at the beginning of every grant cycle. Only applications that are fully complete and contain the necessary detail are approved for funding.
- Grant applications are required to be resubmitted on a biennial basis. Each agency planning to substantially change its program is required to submit an amendment to its State plan for approval.

Internal Control Objective 5: Internal Controls Provide Reasonable Assurance That Grantee Records Are Periodically Substantiated and Evaluated

- Grantees expending more than \$500,000 in a fiscal year are required to obtain audits of their organization's operations annually from independent public accountants in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and 45 CFR § 74.26.
- Grants officers and Office of Community Services program officials use reports, correspondence from grantees, audit reports, site visits, and other available information to monitor costs and performance results, identify potential problems, and identify areas where technical assistance or enforcement action may be necessary.

PHYSICAL SAFEGUARDS AND SECURITY

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Access to Grant and Accounting Records, Critical Forms, Processing Areas, and Processing Procedures Are Permitted Only in Accordance With Policy

- Physical access to ACF facilities is electronically monitored. Access to the various computer systems used to track and manage grants are password protected. Supervisors determine the needs of personnel and restrict access to the various levels of information by use of permissions. External users do not have access to GATES.

ERROR HANDLING

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That the Administration for Children and Families Accurately and Promptly Classifies, Summarizes, and Reports Adjustments to Grant Application Information and Records

- Multiple levels of ACF personnel approve and allocate grants—a process intended to reduce the chance of error.

SEGREGATION OF DUTIES

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Opportunities for an Individual to Both Cause and Conceal Errors Are Reduced

- The Office of Community Services' process for reviewing, approving, allocating, and funding grants spans several offices and requires approval from multiple management level personnel.
- Grants officers serve as the reception and distribution point for prior approval requests, progress reports, and other reports required by the terms and conditions of the Notice of Grant Award.
- Program officials are required to evaluate State Plan submissions while grants officers determine compliance with policy, regulations, and guidelines.