

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NEW JERSEY CLAIMED
UNALLOWABLE COMMUNITY
SERVICES BLOCK GRANT COSTS
INCURRED BY CHECK-MATE, INC.,
UNDER THE RECOVERY ACT**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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**James P. Edert
Regional Inspector General
for Audit Services**

August 2014
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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.

New Jersey claimed \$246,359 for unallowable Community Services Block Grant program costs incurred by Check-Mate, Inc., under the Recovery Act.

INTRODUCTION

WHY WE DID THIS REVIEW

The Community Services Block Grant (CSBG) program, which is administered by the Administration for Children and Families (ACF), provides funds to States and local communities to alleviate poverty. The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, provided \$1 billion for CSBG program funding. The Office of Inspector General is conducting reviews in multiple States to determine whether CSBG Recovery Act costs were allowable. This review covers CSBG Recovery Act costs claimed by the New Jersey Department of Community Affairs (State agency) for program expenditures incurred by Check-Mate, Inc. (Check-Mate).

OBJECTIVE

Our objective was to determine whether CSBG costs that the State agency claimed under the Recovery Act for Check-Mate's program expenditures were allowable in accordance with applicable Federal requirements.

BACKGROUND

Community Services Block Grant Program

The Community Opportunities, Accountability, and Training and Educational Services Act of 1998 (CSBG Act), P.L. No. 105-285, authorized the CSBG program to provide funds to States and local communities to alleviate poverty. Within the U.S. Department of Health and Human Services (HHS), the ACF Office of Community Services administers the CSBG program. ACF distributed CSBG Recovery Act funds to States and local communities through a network of Community Action Agencies (CAAs) and other neighborhood-based organizations.

New Jersey Department of Community Affairs

In New Jersey, the State agency was responsible for approving CAA Recovery Act grant applications and monitoring CAAs' compliance with program requirements.¹ The State agency was also required to manage and monitor CSBG Recovery Act subawards (45 CFR 74.51). During the period April 10, 2009, through September 30, 2010, the State agency received more than \$27 million in CSBG funds under the Recovery Act.

¹ Section 676(a) of the CSBG Act requires each State to designate a State agency as the lead agency for carrying out the State's CSBG activities.

Check-Mate, Inc.

Check-Mate is a not-for-profit CAA that assists individuals throughout Monmouth County, New Jersey in obtaining the skills, knowledge, and opportunities to become self-sufficient. Check-Mate is funded primarily through Federal, State and local government grants.

For the period April 10, 2009, through September 30, 2010, the State agency awarded Check-Mate \$1,460,106 in CSBG Recovery Act funds. Check-Mate expended \$944,735 of the award. The remaining \$515,371 was not expended and was subsequently returned to the State agency. In June 2012, subsequent to the end of our fieldwork, the State agency terminated Check-Mate's CSBG grant.

Federal Requirements for Grantees

States receiving CSBG funds are required to ensure that fund recipients comply with Office of Management and Budget (OMB) cost and accounting standards (section 678D(a)(1)(B) of the CSBG Act). Nonprofit CAAs are subject to 45 CFR part 74, through which HHS applies the provisions of OMB Circular A-110. The regulations at 45 CFR § 74.27(a) state that the allowability of costs will be determined in accordance with 2 CFR part 230, *Cost Principles for Non-Profit Organizations*.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$695,098 of the State agency's claim of \$944,735 for Check-Mate's program expenditures funded by the CSBG Recovery Act award during the period April 10, 2009, through September 30, 2010.² We also reviewed the State agency's monitoring procedures and monitoring reports related to Check-Mate.

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.

Appendix A contains the details of our audit scope and methodology.

FINDINGS

Of the \$695,098 of the State agency's claim for Check-Mate's program expenditures that we reviewed, \$246,359 in CSBG Recovery Act costs were unallowable. Specifically, costs were improperly allocated to Check-Mate's CSBG Recovery Act program (\$158,155) and services were provided to individuals whose incomes exceeded Recovery Act income thresholds or were not documented (\$88,204). The State agency claimed these unallowable costs because it did not

² We do not plan to review the remaining \$249,637 in Check-Mate's costs which we considered low-risk.

adequately monitor Check-Mate's expenditures to ensure that CSBG costs were allowable in accordance with applicable Federal requirements.

UNALLOCABLE COSTS

To be allowable under an award, costs must be allocable (2 CFR part 230, Appendix A, § A.4).

Check-Mate improperly allocated costs totaling \$158,155 to its CSBG Recovery Act program. Specifically, Check-Mate was unable to provide documentation to support salary and fringe benefits (\$126,997), repairs (\$5,038), and consultant costs (\$3,380) which were allocated to its CSBG Recovery Act program. Also, \$22,740 in training costs should have been allocated to a separate weatherization grant.

COSTS ASSOCIATED WITH INELIGIBLE RECIPIENTS

Under the Recovery Act, CSBG services were only to be provided to families and individuals whose incomes did not exceed 200 percent of Federal Poverty Guidelines.³

Check-Mate did not ensure the financial eligibility of 180 of the 358 individuals for which it claimed to have provided CSBG Recovery Act program services during our audit period. We determined that Check-Mate provided services to 53 ineligible individuals whose income levels exceeded CSBG Recovery Act eligibility limits. For the remaining 127 recipients, Check-Mate did not document whether these recipients were eligible for CSBG Recovery Act services. Specifically, for 41 individuals, case files contained no income-related information and for 86 others, the case file did not exist. We calculated the unallowable cost of services provided to these 180 recipients during our audit period to be \$88,204.

STATE AGENCY MONITORING OF CHECK-MATE WAS INADEQUATE

The State agency did not adequately monitor Check-Mate's expenditures to ensure that CSBG Recovery Act costs were allowable in accordance with applicable Federal requirements. The State agency conducted one on-site monitoring visit at Check-Mate during the grant period, about 6 months prior to the end of the CSBG Recovery Act award period. Although the State agency's review covered Check-Mate's programmatic and financial operations, it did not identify the significant program deficiencies covered in our report. Specifically, we found that Check-Mate incurred significant expenditures that were improperly allocated or were for services provided to ineligible recipients.

RECOMMENDATION

We recommend that the State agency refund to the Federal Government \$246,359 in unallocable costs and costs associated with ineligible beneficiaries incurred by Check-Mate.

³ Section 673(2) of the Recovery Act.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency generally agreed with our recommendation and requested that it defer refunding the unallowable funds until it exhausts its administrative remedies concerning its attempts to collect the funds from Check-Mate. In addition, the State agency described its monitoring efforts, which resulted in its suspension of Check-Mate's CSBG grant award. The State agency also provided additional documentation detailing these actions.

The State agency's comments are included as Appendix B.⁴

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency's comments and additional documentation, we maintain that our findings and recommendation are valid. States receiving CSBG funds are required to ensure that recipients comply with OMB cost and accounting standards (section 678D(a)(1)(B) of the CSBG Act). Regarding the State agency's request to defer refunding \$246,359 in unallowable costs while attempts to recover funds from Check-Mate are underway, we are not authorized to make such a decision. Our recommendation that these unallowable funds be returned to the Federal Government is forwarded to HHS, and the HHS action official will make a final determination on the recommendation in this report. Therefore, we continue to recommend that the State agency refund to the Federal Government \$246,359 in unallocable costs and costs associated with ineligible beneficiaries incurred by Check-Mate.

⁴ We did not include the additional documentation as part of the appendix because the information contained therein was not relevant to our recommendation.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed CSBG Recovery Act expenditures, totaling \$695,098, incurred by Check-Mate during the period April 10, 2009, through September 30, 2010. We did not review the overall internal control structure of the State agency or Check-Mate. Rather, we reviewed only the internal controls that related to our objective.

We performed fieldwork at Check-Mate's offices in Asbury Park, New Jersey, from November 2011 through September 2012.

We did not provide Check-Mate a copy of this report as they are no longer a recipient of Federal funds.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations and guidance;
- reviewed the terms and conditions of the CSBG Recovery Act agreement between the State agency and Check-Mate;
- interviewed Check-Mate officials and reviewed Check-Mate's financial management system policies and procedures;
- reviewed Check-Mate's Office of Management and Budget Circular A-133 audit reports;
- reviewed the results of the State agency's 2010 on-site monitoring visit;
- judgmentally selected and reviewed Check-Mate expenditures related to its CSBG Recovery Act program totaling \$606,894;
- reviewed income eligibility information, if available, maintained by Check-Mate for individuals for which Check-Mate claimed that it provided CSBG Recovery Act services;
- calculated the unallowable CSBG Recovery Act costs associated with individuals determined to be financially ineligible;⁵
- interviewed State agency officials to gain an understanding of their fiscal and program monitoring procedures and reviewed monitoring reports related to Check-Mate; and

⁵ Specifically, we questioned the proportionate share of CSBG Recovery Act costs that remained after we applied disallowances associated with the costs that we judgmentally selected.

- discussed our findings with Check-Mate and State 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 objectives.

APPENDIX B: STATE AGENCY COMMENTS



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June 6, 2014

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Regional Inspector General of Audit Services
Department of Health & Human Services
Office of Audit Services, Region II
Jacob K. Javits Federal Building
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Dear Mr. Edert:

We thank you for providing the New Jersey Department of Community Affairs (DCA) with the opportunity to respond to the Office of Audit Services Report Number A-02-11-02017.

As you are aware, we have been in frequent communication with the federal Department of Health and Human Services' Office of the Inspector General's (OIG) auditors throughout this engagement. Further, we have provided the OIG with frequent updates concerning DCA's efforts to suspend and terminate Checkmate's CSBG grant award. Please find below a response to the specific findings found in the report.

Office of Inspector General (OIG): The \$246,359 in CSBG Recovery Act costs claimed by the State agency for Checkmate's program expenditures that we reviewed were unallowable. Specifically, costs were improperly allocated to Checkmate's CSBG Recovery Act program (\$158,155) and services were provided to individuals whose income exceeded Recovery Act income thresholds or were not documented (\$88,204).

DCA Response: During the scope of the audit, DCA conducted monitoring engagements in accordance with the applicable federal regulations. Specifically, 42 U.S.C.S. §9914(a)(1) states in relevant part, "In order to determine whether eligible entities meet the performance goals, administrative standards, financial management requirements, and other requirements of a State, the State shall conduct the following reviews of eligible entities: (1) A full onsite review of each such entity at least once during each 3-year period...."



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During the audit's scope, DCA conducted monitoring of Checkmate's financial expenditures, programs and income eligibility. In doing so, DCA engaged the independent accounting firm, Mercadian P.C., CPAs, to conduct the monitoring engagement of Checkmate. The following items were reviewed as part of the agreed-upon procedures review that Mercadien undertook of Checkmate:

1. Expenditure reports submitted to DCA for the period ended September 30, 2009.
2. Cash receipts and disbursements for the CSBG awards for the period ending September 30, 2009.
3. By-laws, Accounting Manual, Board Roster and Minutes of the Board Meetings for the award period.
4. Audit Report for the year ended December 30, 2008.
5. Client files relating to CSBG disbursements sampled.
6. Various contracts related to disbursements for the CSBG awards.

The aforementioned monitoring reviews resulted in Checkmate being placed on corrective action plans which we have attached for your review (See Exhibit 1).

Moreover, on May 18, 2012, DCA provided Checkmate with a notice of serious operational deficiencies (See attached Exhibit 2) which caused Checkmate to be materially non-compliant with the terms and conditions of its 2011 CSBG Grant Agreement. Subsequently, DCA notified Checkmate that it had not demonstrated that it cured the instances of non-compliance that were identified on May 18, 2012.

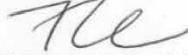
As a result, DCA suspended Checkmate's CSBG grant award on June 27, 2012 (See attached Exhibit 3). Checkmate appealed DCA's decision to suspend its CSBG grant and requested a hearing pursuant to the New Jersey Administrative Procedures Act. DCA conducted an internal hearing at Checkmate's request that resulted in DCA's decision concerning the suspension of the CSBG grant being upheld. Subsequently, Checkmate appealed DCA's suspension of its CSBG grant award to the New Jersey Office of Administrative Law (OAL). At this time, the case is still being adjudicated by the OAL. Throughout the defunding process, DCA has also been in constant contact with the federal Department of Health and Human Services (HHS) and has provided bi-weekly updates concerning the status of the OAL proceedings.

Presently, DCA does not provide CSBG or any other state or federal grant funds to Checkmate. As evidenced above, it is apparent that DCA exercised significant diligence to provide reasonable assurances that Checkmate was expending its CSBG grant funds in compliance with state and federal laws and regulations. Further, the record demonstrates that DCA took remedial steps, when appropriate, as compliance deficiencies were revealed.

Consequently, we respectfully request that the OIG's recommendation requesting that the State repay the \$246,359 in unallocable costs be deferred until DCA concludes the pending OAL adjudication and exhausts its administrative remedies concerning its attempts to collect the funds from Checkmate.

Thank you for your consideration of this request. Should you have any questions, please do not hesitate to contact me at 609-292-6420.

Sincerely,



Richard E. Constable, III
Commissioner

Attachments

- c: Ana Montero, Assistant Commissioner
- Robert Bartolone, Director, Office of Auditing
- Manuel Garcia, Deputy Director, Division of Housing & Community Affairs
- Patricia Swartz, Office of Community Action