



January 11, 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 Nicholas Community Action Partnership,
Inc. (A-03-10-00251)

The attached final report provides the results of our limited scope review at Nicholas Community Action Partnership, Inc. In accordance with the American Recovery and Reinvestment Act of 2009, the Office of Inspector General (OIG) will provide oversight of covered funds to prevent fraud, waste and abuse.

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-03-10-00251 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE REVIEW
AT NICHOLAS COMMUNITY ACTION
PARTNERSHIP, INC.**



Daniel R. Levinson
Inspector General

January 2011
A-03-10-00251

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

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 Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. 105-285, 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, health, 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 the causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula.

West Virginia's Governor's Office of Economic Opportunity (GOEO) acts as the lead agency for carrying out State activities for the CSBG program. GOEO is responsible for approving the States CAA Recovery Act grant applications, and monitoring the CAAs for compliance with program regulations. GOEO was awarded an additional \$11,193,235 in Recovery Act funds for the State of West Virginia's CSBG program.

Nicholas Community Action Partnership, Inc. (Nicholas), a private, nonprofit organization, has provided services to individuals and families in Nicholas County, West Virginia since 1964. During fiscal year 2009, GOEO awarded Nicholas \$288,210 in Recovery Act CSBG funds, and \$223,258 in regular CSBG funds for a total of \$511,468 in CSBG grant funds. Nicholas also received Federal Head Start funds and funds from three other Federal Departments.

OBJECTIVE

Our objective was to assess Nicholas' financial viability, capacity to manage and account for Federal funds and program performance requirements, and capability to operate its CSBG programs in accordance with Federal regulations.

SUMMARY OF FINDINGS

Based on our assessment, Nicholas is financially viable, has the ability to manage and account for Federal funds, and is capable of operating its CSBG programs in accordance with Federal regulations. However, we noted weaknesses related to the composition of the Board of Directors, segregation of duties, and lack of written policies and procedures for use of consultants.

RECOMMENDATION

In determining whether Nicholas is appropriately managing and accounting for Recovery Act and regular CSBG grant funding, we recommend that ACF consider the information presented in this report in assessing Nicholas' ability to operate its CSBG programs in accordance with Federal regulations.

NICHOLAS COMMUNITY ACTION PARTNERSHIP, INC., COMMENTS

In written comments on our draft report, Nicholas concurred with our findings and described actions that it had taken to address them. Nicholas' comments are included in their entirety as the Appendix.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Community Services Block Grant Program	1
West Virginia’s Governor’s Office of Economic Opportunity.....	1
Nicholas Community Action Partnership, Inc.	1
Requirements for Federal Grantees	1
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective	2
Scope.....	2
Methodology	2
FINDINGS AND RECOMMENDATION	3
COMPOSITION OF THE BOARD OF DIRECTORS	3
SEGREGATION OF DUTIES	3
POLICIES AND PROCEDURES	4
RECOMMENDATION	4
NICHOLAS COMMUNITY ACTION PARTNERSHIP, INC., COMMENTS.....	4
APPENDIX	
NICHOLAS COMMUNITY ACTION PARTNERSHIP, INC., COMMENTS	

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, P.L. 105-285 (the CSBG Act), to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services (HHS), 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.

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Nicholas Community Action Partnership, Inc. (Nicholas), a private, nonprofit organization, has provided services to individuals and families in Nicholas County, West Virginia since 1964. During fiscal year 2009, GOEO awarded Nicholas \$288,210 in Recovery Act CSBG funds, and \$223,258 in regular CSBG funds for a total of \$511,468 in CSBG grant funds. Nicholas also received Federal Head Start funds and funds from three other Federal Departments.

Requirements for Federal Grantees

Pursuant to 45 CFR part 74, grantees of Federal awards must maintain inventory control systems and take periodic physical inventory of grant-related equipment, 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. Nonprofit organizations that receive CSBG funds must comply with Federal cost principles found at 2 CFR part 230 (formerly Office of Management and

Budget Circular A-122, *Cost Principles for Non-profit Organizations*). The HHS Grants Policy Statement sets forth the general terms and conditions of HHS discretionary grants and cooperative agreement awards. 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 Nicholas' financial viability, capacity to manage and account for Federal funds and program performance requirements, and capability to operate its CSBG programs in accordance with Federal regulations.

Scope

We conducted a limited review of Nicholas' financial viability, financial management system, program performance requirements, and related policies and procedures. Therefore, we did not perform an overall assessment of Nicholas' internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective.

We performed our fieldwork at Nicholas' administrative office in Summersville, West Virginia, during July 2010.

Methodology

To accomplish our objective, we:

- confirmed that Nicholas is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed relevant State guidance;
- reviewed Nicholas' application and implementation of the grant awards for the Recovery Act funding;
- reviewed the findings related to the most recent State review;
- reviewed Nicholas' policies and procedures related to its CSBG programs;
- reviewed Nicholas' by-laws, minutes from the Board of Directors meetings, composition of Board, and organizational chart;
- performed audit steps to assess the adequacy of Nicholas' current financial systems; and

- reviewed Nicholas' audited financial statements and supporting documentation for the period of September 1, 2006, through October 31, 2009.

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 RECOMMENDATION

Based on our assessment, Nicholas is financially viable, has the capacity to manage and account for Federal funds, and is capable of operating its CSBG programs in accordance with Federal regulations. However, we noted weaknesses related to the composition of the Board of Directors, segregation of duties, and lack of written policies and procedures for use of consultants.

COMPOSITION OF THE BOARD OF DIRECTORS

Section 676B of the CSBG Act requires that all CAAs administer their CSBG programs through a tripartite board composed of one-third elected public officials or their representatives; one-third representatives of low-income individuals and families who reside in the neighborhoods they represent; and one-third members of business, industry, labor, religious, law enforcement, education, or other major groups and interests in the community served. Section 676B requires the board to participate fully in the development, planning, implementation, and evaluation of the programs to serve low-income communities.

To comply with the tripartite board requirements, Nicholas' by-laws require that a vacancy of any elected position shall be filled within 90 days. However, one of Nicholas' 12 Board of Directors' positions was vacant for more than 90 days. The board member, who represented families and individuals below the national median income level, resigned on January 19, 2010. On May 10, 2010, a new representative was elected by low-income individuals in Nicholas County. We contacted Nicholas officials and they confirmed that the Board voted to approve its new member to fill this vacancy on August 17, 2010, 210 days after the position became vacant.

SEGREGATION OF DUTIES

Pursuant to 45 CFR § 74.21(b)(3), grantees' financial management systems must provide effective control over and accountability of all funds, property, and other assets so that recipients can adequately safeguard all such assets and assure they are used solely for authorized purposes.

Nicholas did not adequately segregate duties for payroll. At the time of our audit, there was no secondary review of payroll by Nicholas officials. Nicholas' Finance Department consisted of two employees, the Finance Director and the Assistant Finance Director, each of whom independently prepared the payroll for about half of the employees. Each verified his or her own

work. They did not verify each other's work, nor did any Nicholas officials outside of the Finance Department review the payroll.

Also, program directors and managers performed their own physical inventories and maintained their own inventory records.

POLICIES AND PROCEDURES

Pursuant to 45 CFR § 74.44(a), grantees of Federal awards must implement written procurement procedures for solicitation of goods and services. Exhibit 4 of the HHS Grants Policy Statement, page II-33, requires grantees to have written policies for the use of consultants.

At the time of our audit, Nicholas did not have written policies and procedures regarding the use of consultants, specifically, procedures for selecting the most qualified individual available, for determining the nature and extent of the services to be provided, and for ensuring that the fees are reasonable in accordance with 2 CFR part 230, App. B § 37. During fiscal year 2009, Nicholas reported annual costs of \$14,980 for consultants.

RECOMMENDATION

In determining whether Nicholas is appropriately managing and accounting for Recovery Act and regular CSBG grant funding, we recommend that ACF consider the information presented in this report in assessing Nicholas' ability to operate its CSBG programs in accordance with Federal regulations.

NICHOLAS COMMUNITY ACTION PARTNERSHIP, INC., COMMENTS

In written comments on our draft report, Nicholas concurred with our findings and described actions that it had taken to address them. Nicholas' comments are included in their entirety as the Appendix.

APPENDIX

**APPENDIX: NICHOLAS COMMUNITY ACTION PARTNERSHIP, INC.,
COMMENTS**

Nicholas Community Action Partnership, Inc.
Dave Jarroll, President
1205 Broad Street
Summersville, WV 26651
www.ncapwv.info

Corrective Action Plan

OIG Monitoring Visit
Report #: A—03-10-00251

Finding/Recommendation: Section 676B of the CSBG Act requires that all CAAs administer their CSBG programs through a tripartite board composed of one-third elected officials or their representatives; one-third representatives of low-income individuals and families who reside in the neighborhoods they represent; and one-third members of business, industry, labor, religious, law enforcement, education, or other major groups of interests in the community served. Section 676B requires the board to participate fully in the development, planning, implementation, and evaluation of the programs to serve low-income communities.

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Corrective Action Plan: The agency utilizes the local Head Start and Senior Center boards to nominate members below the national median income to serve on the Board of Directors. The agency will ensure the local boards will be informed quickly of any future vacancies so a nominating and elections process can occur in a more efficient manner.

Finding/Recommendation: Pursuant to 45 CFR § 74.21(b)(3), grantees' financial management system must provide effective control over and accountability of all funds, property, and other assets so that recipients can adequately safeguard all such assets and assure they are used for authorized purposes.

Nicholas did not adequately segregate duties for payroll. At the time of our audit, there was no secondary review of payroll by Nicholas officials. Nicholas' Finance Department consist of two employees, the Finance Director and the Assistant Finance Director, each of whom independently prepare the payroll for about half of the employees. Each

verified his or her own work. They did not verify each other's work, nor did any Nicholas officials outside the Finance Department review the payroll.

Also, program directors and managers performed their own physical inventories and maintained their own inventory records.

Corrective Action Plan: The Finance Director and Assistant Finance Director will start verifying each others work. After the timesheets have been entered into the Accounting Software by the Finance Director or Assistant Finance Director the batch will be given to the other for control totals to be added and verified. Also the NCAP President reviews all timesheets when signing the payroll checks.

The procedure in the Finance Manual will be changed to state that the Fiscal Department along with the Program Managers from a different department of the one being inventoried will complete the actual physical inventory of the programs. The form will have signature and date of each employee who conducted the actual inventory and who was involved in the process. Also inventory records should be maintained in the Fiscal Department and a copy given to the managers.

Finding/Recommendation: Pursuant to 45 CFR 74.44(a) grantees of Federal awards must implement written procurement procedures for solicitation of goods and services. Exhibit 4 of the HHS Grants Policy Statement, page II-33, requires grantees to have written policies for the use of consultants.

At the time of our audit, Nicholas did not have written policies and procedures regarding the use of consultants, specifically, procedures for selecting the most qualified individuals available, for determining the nature and extent of the services to be provided, and for ensuring that the fees are reasonable in accordance with 2 CFR part 230, App B § 37. During fiscal year 2009, Nicholas reported annual costs of \$14,980 for consultants.

Corrective Action Plan: Nicholas Community Action Partnership, Inc. currently has a Purchasing Policies and Procedures which outlines responsible practices for purchasing, agreements and contracts. Nicholas Community Action Partnership will expand the policy to clearly outline ethical practices for hiring consultants and employee agreements.

Submitted By:

Dave Jarroll, President
Nicholas Community Action Partnership, Inc.

October 7, 2010