

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**PENNSYLVANIA GENERALLY
CLAIMED ALLOWABLE COMMUNITY
SERVICES BLOCK GRANT RECOVERY ACT
COSTS FOR COMMUNITY ACTION
PROGRAM OF LANCASTER COUNTY**

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



**Stephen Virbitsky
Regional Inspector General**

November 2013
A-03-12-00250

Office of Inspector General

<https://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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EXECUTIVE SUMMARY

BACKGROUND

The Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. No.105-285 (the CSBG Act), reauthorized the Community Services Block Grant (CSBG) program to provide funds to alleviate 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 (CAAs) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, provided an additional \$1 billion to ACF for the CSBG program. Recovery Act funds for the CSBG program were distributed to CAAs using an existing statutory formula. As with annually appropriated CSBG funds, Recovery Act funds were to be used to reduce poverty, revitalize low-income communities, and help low-income Americans. CSBG services funded by the Recovery Act were to be provided on or before September 30, 2010.

Section 676(a) of the CSBG Act requires each State to designate an appropriate State agency to act as the lead agency for carrying out the State's CSBG activities. The Pennsylvania Department of Community and Economic Development (State agency) acted as the lead agency to carry out State activities for the CSBG program. The State agency was responsible for approving CAA Recovery Act grant applications and monitoring the CAAs for compliance with program requirements. The State agency received \$42,332,166 in Recovery Act funds for Pennsylvania's CSBG program.

Community Action Program of Lancaster County (Lancaster), a nonprofit organization, provides services to individuals and families in Lancaster County, Pennsylvania. The State agency awarded Lancaster \$655,800 in regular CSBG funds for the period January 1, 2009, through December 31, 2010, and \$1,036,699 in CSBG Recovery Act funds for the period July 1, 2009, through September 30, 2010.

OBJECTIVE

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

SUMMARY OF FINDINGS

Of the \$706,958 in CSBG Recovery Act costs that the State agency claimed for Lancaster and that we reviewed, \$704,145 was allowable under the terms of the grant and applicable Federal regulations. However, the State agency claimed \$2,813 in unallowable entertainment costs for Lancaster.

The work plan budget proposal Lancaster submitted to the State agency included allowable educational field trips and other similar costs. However, Lancaster charged as field trips the unallowable entertainment costs of \$2,813 for amusement park admission, sports events, meals, and rentals. Lancaster did not itemize the proposed costs in its work plan or when the incurred costs were claimed. Therefore, the State agency could not readily identify the incurred costs as unallowable entertainment costs. Further, Lancaster did not follow its accounting policy for segregating unallowable costs to ensure these costs were not charged to Federal awards.

In addition, Lancaster did not maintain supporting documentation that it had monitored subgrantees providing professional services, as required.

RECOMMENDATIONS

We recommend that the State agency:

- return to the Federal Government \$2,813 used for unallowable costs and
- ensure that Lancaster follows its accounting policy for segregating unallowable costs and for documenting its monitoring activities of subgrantees.

LANCASTER COMMENTS

Lancaster said that, in the past, such costs have been allowable for other U.S. Department of Health & Human Services grants. However, Lancaster agreed with the recommendations and stated that its Accounts Payable staff has been instructed to review costs for unallowability and cost matching. Also, Lancaster said that in the future it will submit appropriate documentation of its monitoring activities to the State and/or Federal agency.

STATE AGENCY COMMENTS

The State agency agreed with our recommendations and described the action it has taken to address them.

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INTRODUCTION

BACKGROUND

Community Services Block Grant Recovery Act Program

The Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. No.105-285 (the CSBG Act), reauthorized the Community Services Block Grant (CSBG) program to provide funds to alleviate 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 (CAAs) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, provided an additional \$1 billion to ACF for the CSBG program. Recovery Act funds for the CSBG program were distributed to CAAs using an existing statutory formula. As with annually appropriated CSBG funds, Recovery Act funds were to be used to reduce poverty, revitalize low-income communities, and help low-income Americans. CSBG services funded by the Recovery Act were to be provided on or before September 30, 2010.

Pennsylvania Department of Community & Economic Development

Section 676(a) of the CSBG Act requires each State to designate an appropriate State agency to act as the lead agency for carrying out the State's CSBG activities. The Pennsylvania Department of Community and Economic Development (State agency) acted as the lead agency to carry out State activities for the CSBG program during our audit period. The State agency was responsible for approving CAA Recovery Act grant applications and monitoring the CAAs for compliance with program requirements. The State agency received \$42,332,166 in Recovery Act funds for Pennsylvania's CSBG program.

Community Action Program of Lancaster County

Community Action Program of Lancaster County (Lancaster), a nonprofit organization, provides services to individuals and families in Lancaster County, Pennsylvania. The State agency awarded Lancaster \$655,800 in regular CSBG funds for the period January 1, 2009, through December 31, 2010, and \$1,036,699 in CSBG Recovery Act funds for the period July 1, 2009, through September 30, 2010.

Federal Requirements

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

This review is one of a series of Office of Inspector General reviews to provide oversight of Recovery Act funds.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

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

Scope

We reviewed \$706,958 of the \$1,036,699 costs claimed by Lancaster under its CSBG Recovery Act agreement with Pennsylvania for the period July 1, 2009, through September 30, 2010. This review is part of a series of audits that provide oversight of funds provided by the Recovery Act. We did not perform an overall assessment of Lancaster's internal control structure. Rather, we reviewed only the internal controls that pertained to our objective.

We performed our fieldwork at Lancaster's administrative office in Lancaster, Pennsylvania, during March and April 2012.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed the terms and conditions of the CSBG Recovery Act agreement between Lancaster and the State agency for July 1, 2009, through September 30, 2010;
- reviewed Lancaster's and the State agency's monitoring reports for calendar years 2009, 2010, and 2011;
- reviewed Lancaster's budget justification for the Recovery Act funding and general ledger for the grant period;
- reviewed Lancaster's policies and procedures related to the CSBG Recovery Act program;
- reviewed Lancaster's by-laws, minutes from the Board of Directors meetings, and composition of its Board;
- reconciled Lancaster's CSBG Recovery Act financial status report for the year ended September 30, 2010, to its accounting records;
- judgmentally selected 55 transactions totaling \$706,958 based on risk factors including whether the transactions:

- were high dollar,
- were for items usually considered unallowable (e.g., entertainment, memberships), or
- were recorded near the end of the grant period or outside of the grant period; and
- discussed findings with Agency officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

Of the \$706,958 in CSBG Recovery Act costs that the State agency claimed for Lancaster and that we reviewed, \$704,145 was allowable under the terms of the grant and applicable Federal regulations. However, the State agency claimed \$2,813 in unallowable entertainment costs for Lancaster.

The work plan budget proposal Lancaster submitted to the State agency included allowable educational field trips and other similar costs. However, Lancaster charged as field trips the unallowable entertainment costs of \$2,813 for amusement park admission, sports events, meals, and rentals. Lancaster did not itemize the proposed costs in its work plan or when the incurred costs were claimed. Therefore, the State agency could not readily identify the incurred costs as unallowable entertainment costs. Further, Lancaster did not follow its accounting policy for segregating unallowable costs to ensure these costs were not charged to Federal awards.

In addition, Lancaster did not maintain supporting documentation that it had monitored subgrantees providing professional services, as required.

UNALLOWABLE ENTERTAINMENT COSTS CLAIMED

Federal cost principles state that costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable (2 CFR part 230, App. B.14).¹

Lancaster's *Accounting & Financial Policies and Procedures Manual* (policy manual), page 107, states that accounting personnel will be familiar with the allowability of costs provisions of Attachment B of OMB Circular A-122 and that unallowable costs must be segregated from allowable costs in the general ledger to assure that unallowable costs are not charged to Federal awards.

¹ OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, was relocated to 2 CFR part 230.

Lancaster charged \$2,813 to the CSBG Recovery Act program for entertainment costs that were directly associated with amusement park admission, sports events, meals, and rentals. The entertainment costs consisted of \$2,420 related to amusement park expenditures and \$393 associated with sporting events and meals. Although field trips and other related costs were included in the work plan submitted to the State agency, Lancaster did not follow its accounting policy for charging costs to Federal awards. That is, Lancaster did not identify these costs as unallowable entertainment costs or segregate them from allowable costs in the general ledger to ensure that the unallowable costs were not charged to a Federal award.

LACK OF DOCUMENTATION FOR MONITORING PROGRAMS

Federal administrative requirements state that “recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award” (45 CFR § 74.51 (a)).

Lancaster’s policy manual, pages 102-103, states that, if Lancaster utilizes Federal funds to make sub-awards, it will assign one employee to monitor each subgrantee to ensure that the subgrantee is in compliance with Federal laws and regulations and the provisions of the subaward. The assigned employee is also responsible for documenting the monitoring activities.

Lancaster claimed \$100,000 for professional services provided by a subgrantee for the CSBG Recovery Act Program. However, Lancaster did not document any monitoring activities it performed to show how it ensured that the subgrantee was in compliance with the goals of the program and applicable rules and regulations. Because Lancaster did not follow its policy for documenting monitoring activities, Lancaster was unable to demonstrate that it had adequately monitored the subgrantee.

RECOMMENDATIONS

We recommend that the State agency:

- return to the Federal Government \$2,813 used for unallowable costs and
- ensure that Lancaster follows its accounting policy for segregating unallowable costs and for documenting its monitoring activities of subgrantees.

LANCASTER COMMENTS

Lancaster said that, in the past, such costs have been allowable for other U.S. Department of Health & Human Services grants. However, Lancaster agreed with the recommendations and stated that its Accounts Payable staff has been instructed to review costs for unallowability and cost matching. Also, Lancaster said that in the future it will submit appropriate documentation of its monitoring activities to the State and/or Federal agency.

The complete text of Lancaster’s comments is included as Appendix A.

STATE AGENCY COMMENTS

The State agency agreed with our recommendations and described the action it has taken to address them.

The complete text of the State agency's comments is included as Appendix B.

APPENDIX A: LANCASTER COMMENTS



Community Action Program of Lancaster County

601 South Queen Street ♦ P.O. Box 599 ♦ Lancaster, PA 17608-0599

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F: 717.299.9341 ♦ www.caplanc.org

September 17, 2013

Mr. Stephen Virbitsky
Regional Inspector General for Audit Services
150 South Independence Hall West, Suite 316
Philadelphia, PA 19106

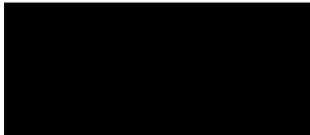
Re: Report Number: A-03-12-00250

Dear Sir/Madame:

We are writing you in response to the above-referenced letter. Enclosed please find our comments.

Should you have any questions, or require more information, please contact me at 717-299-7388 extension 3018, or via email at fgatti@caplanc.org.

Sincerely,



Francis M. Gatti
Chief Financial Officer

Enclosure

The official registration and financial information of the Community Action Program of Lancaster County, Inc. may be obtained from the Pennsylvania Department of State by calling toll free, within Pennsylvania, 1 (800) 732-0999. Registration does not imply endorsement.



Helping People - Changing Lives



Mr. Stephen Vribitsky
Regional Inspector General, HHS
September 17, 2013

Finding: Unallowable entertainment costs claimed. The Community Action Program of Lancaster County claimed entertainment costs against the CSBG Recovery Act grant totaling \$2,813.

Background: The Recovery Act grant was used in part to maintain relationships with children who were enrolled in the Head Start Program whose parents were identified as substance abusers. These activities were designed to maintain the benefits of the Head Start Program for this group of children throughout the summer of 2010, which extended their "Head Start year". The costs in question consisted of admissions to amusement parks, skating rinks, sporting events and meals for this group of children. Similar costs in prior years were considered allowable for other grants administered by the US Department of Health and Human Services.

Recommendation: Return to the Federal Government unallowable costs totaling \$2,813.

Response: We agree with the recommendation. We have implemented the following changes to our procedures:

1. Accounts Payable procedures. Accounts Payable staff has been trained on the recognition of unallowable costs such as entertainment, meals and sporting events. This results in further review of these types of costs to ensure that there is specific, written allowance from the funding source prior to charging these costs to Federal awards.
2. Program management. When developing the work plan and program narratives in support of applications for funding, our program managers are made aware of potential areas of disallowance, and are required to either seek specific allowance from the funding source for costs that are generally unallowable, or to find other non-Federal sources of funding for the costs. Unallowable costs cannot be used for required match, regardless of the source.

Recommendation: Ensure that CAP Lancaster follows its accounting policy for segregating unallowable costs and for documenting its monitoring activities of sub-grantees.

Response: We agree with the recommendation. In the future, if CAP Lancaster uses a sub-grantee to carry out program objectives, we will submit copies of the documentation of the monitoring activities to the State and/or Federal agency. The documentation of the monitoring will be reported on the attached form or a similar form.

APPENDIX B: STATE AGENCY COMMENTS



pennsylvania

DEPARTMENT OF COMMUNITY
AND ECONOMIC DEVELOPMENT

November 4, 2013

Mr. Stephen Virbitsky
Regional Inspector General
For Audit Services
U.S. Department of Health and Human Service
Office of Inspector General
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106

RE: Report Number A-03-12-00250

Dear Mr. Virbitsky:

The Pennsylvania Department of Community and Economic Development (DCED), Center for Community Services has received and reviewed your report on the monitoring conducted by your office on Pennsylvania's American Recovery and Reinvestment Act (ARRA) Community Services Block Grant Program. Your monitoring included a review of records from the Community Action Program (CAP) of Lancaster County, a non-profit organization which provides services to individuals and families in Lancaster County, Pennsylvania.

Your review of CAP Lancaster's records produced the following finding: Of the \$706,958.00 examined, a total of \$704,145.00 was allowable under the terms of the grant, however, a total of \$2,813.00 was claimed for unallowable entertainment costs that were directly associated with amusement park admission, sporting events, meals and rentals. Your monitoring further revealed that CAP of Lancaster did not follow their own accounting policy to identify these costs as unallowable and therefore failed to segregate the costs from allowable expenditures. Your office's recommendation is that CAP of Lancaster returns the allowable costs of \$2,813.00 to the Federal government. Both the CAP of Lancaster and DCED agree with this recommendation. Furthermore, CAP of Lancaster will make every effort in the future to assure that their fiscal office adheres to the guidelines in OMB Circular A-122 and the CSBG statute.

Your monitoring also identifies that the CAP of Lancaster committed \$100,000.00 for professional services under this contract for services to be provided by a sub-grantee agency. However, CAP of Lancaster failed to document any monitoring activities to show it ensured that these activities were carried out by their sub-grantee. CAP of Lancaster agrees with this finding and will take steps to ensure that any future sub-contractual arrangements will be appropriately monitored and documented.

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Mr. Stephen Virbitsky
November 4, 2013
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DCED has been in contact with CAP of Lancaster to verify their responses to your monitoring Report and has offered technical assistance to CAP of Lancaster in order to insure that these types of deficiencies are not repeated in the future.

If you need any further information, or if we may be of further assistance, please do not hesitate to contact our office at (717) 787-1984.

Sincerely,



Lynette M. Praster, Director
Center for Community Services

Cc: Mr. Champ Holman, Deputy Secretary, Community Affairs & Development, DCED