

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**NORTHEAST FLORIDA COMMUNITY  
ACTION AGENCY, INC., DID NOT  
ALWAYS CHARGE ALLOWABLE  
COSTS TO THE COMMUNITY  
SERVICES BLOCK GRANT –  
RECOVERY ACT PROGRAM**

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Regional Inspector General

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# *Office of Inspector General*

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## 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. No. 105-285 (the CSBG Act), to provide funds to alleviate poverty in communities. Within the U.S. Department of Health and 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 CSBG program awarded \$620 million in fiscal year (FY) 2007, \$643 million in FY 2008, \$1.7 billion in FY 2009, and \$689 million in FY 2010.

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. CSBG Recovery Act funds were distributed to CAAs using an existing statutory formula. The primary objective of the CSBG Recovery Act was to provide assistance to States and local communities, working through a network of community action agencies and other neighborhood-based organizations, for the reduction of poverty, revitalization of low-income communities, and empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient.

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. Florida's Department of Community Affairs (the State) acted as the lead agency to carry out State activities for the CSBG program during our audit period. The State is responsible for approving CAA Recovery Act grant applications and monitoring CAAs for compliance with program requirements. The State received \$29,060,460 in Recovery Act funds for the State of Florida's CSBG program.

Northeast Florida Community Action Agency, Inc. (the Agency), a private, nonprofit organization, provides services to households throughout Baker, Clay, Duval, Flagler, Nassau, Putnam, and St. Johns counties in Florida. During FY 2009, the State awarded the Agency \$1,682,870 in CSBG grant funds and \$2,750,840 in CSBG Recovery Act funds for the period July 1, 2009, through September 30, 2010.

### OBJECTIVE

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

## **SUMMARY OF FINDINGS**

Of the \$398,346 in CSBG Recovery Act costs that the State claimed on behalf of the Agency and that we reviewed, \$232,551 was allowable under the terms of the grant and applicable Federal regulations. However, the State claimed \$165,795 (or 42 percent of reviewed expenditures) in unallowable costs on behalf of the Agency. The unallowable costs included:

- \$113,108 in unallowable salary costs and related fringe benefits and indirect costs and
- \$52,687 in indirect costs that were improperly charged as direct.

In addition to charging unallowable costs to the State, the Agency entered into a services contract without providing for free and open competition to the maximum extent practical.

The Agency charged unallowable salary costs because its policies and procedures were not adequate to ensure that lump sum salary increase payments were properly supported. In addition, the Agency's policies and procedures were inconsistent with Federal regulations with respect to charging direct and indirect costs to Federal awards. Finally, because it perceived an immediate need for the services contract, the Agency did not follow Federal regulations.

Because the Agency charged \$165,795 in unallowable costs, these funds could not be used to reduce poverty, revitalize low income communities, and empower individuals to become fully self-sufficient. By not always following Federal regulations, the Agency had no assurance that it received the most advantageous price for contracted services.

## **RECOMMENDATIONS**

We recommend that the State:

- return to the Federal Government unallowable costs totaling \$165,795,
- ensure that the Agency improves its policies and procedures regarding salary increase payments and that it charges direct and indirect costs in accordance with Federal regulations, and
- ensure that the Agency conducts procurement transactions in a manner to provide for free and open competition to the maximum extent practical.

## **AGENCY COMMENTS**

In written comments on our draft report, the Agency disagreed with our first two findings but concurred with our last finding.

Regarding our first finding on unsupported salary payments, although the Agency acknowledged that it had not properly supported the retroactive lump sum salary payments with time logs, it

asserted that its workforce had achieved a tremendous amount of work throughout the program period and that it had a number of documents substantiating their contributions.

In response to our second finding on indirect costs improperly charged as direct costs, the Agency contended that it had complied with the requirements of Office of Management and Budget Circular (OMB) A-122 by evaluating all costs based on the type of cost incurred, the purpose of the cost, and whether a specific program or multiple programs received a related benefit.

The Agency's written comments are included as Appendix A. However, the additional documents that the Agency provided were too voluminous to include in this report.

### **OFFICE OF INSPECTOR GENERAL RESPONSE**

We maintain that the State claimed on behalf of the Agency \$165,795 in unallowable costs including \$113,108 in unsupported salary costs, related fringe benefits, and indirect costs and \$52,687 in indirect costs that were improperly charged as direct.

In response to our first finding, the Agency's explanation and documentation to support the lump sum salary payments did not meet the standards of the Federal requirements for allowable compensation for personal services.

Furthermore, in response to our second finding, the Agency did not substantiate with supporting documentation its justification for charging certain indirect-type costs as direct costs.

### **STATE COMMENTS**

In response to our draft report, the State concurred, in part, with our first finding and did not address our second finding.

The State agreed that the Agency did not properly support the \$113,108 in salary payments and that the payments were therefore unallowable.

With regard to indirect costs incorrectly charged as direct costs, the State explained that the Agency's *Accounting and Financial Policies and Procedures Manual* allowed certain cost categories to be chargeable as both direct and indirect costs and that items the Agency included as indirect costs in its cost allocation plan could have been charged directly to the CSBG Recovery Act grant. The State also provided Agency documentation to support the direct charging of the costs to the grant.

The State did not address our finding concerning the Agency's inadequate justification for a sole source contract.

The complete text of the State's response is included as Appendix B. The additional Agency documentation provided by the State is not included.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

We hold that the Agency's inconsistent treatment of direct and indirect costs resulted in unallowable charges to the CSBG Recovery Act grant; however, based on the State-provided documentation, we partially revised our findings to include some items as allowable direct costs. The remaining items, totaling \$52,687, were unallowable direct costs.

We continue to view the Agency's practice of charging similar items as both direct and indirect costs as not complying with OMB Circular A-122 provisions, namely, that a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost (2 CFR pt. 230, App. A, B.1.).

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## 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. No. 105-285 (the CSBG Act), to provide funds to alleviate poverty in communities. Within the U.S. Department of Health and 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. The CSBG program awarded \$620 million in fiscal year (FY) 2007, \$643 million in FY 2008, \$1.7 billion in FY 2009, and \$689 million in FY 2010.

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. The primary objective of these funds was to provide assistance to States and local communities, working through a network of community action agencies and other neighborhood-based organizations, for the reduction of poverty, revitalization of low-income communities, and empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient.

#### **Florida Department of Community Affairs**

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. Florida's Department of Community Affairs (the State) acted as the lead agency to carry out State activities for the CSBG program.<sup>1</sup> The State is responsible for approving CAA Recovery Act grant applications and monitoring CAAs for compliance with program requirements. The State received \$29,060,460 in Recovery Act funds for the State of Florida's CSBG program.

#### **Northeast Florida Community Action Agency, Inc.**

Northeast Florida Community Action Agency, Inc. (the Agency), a private, nonprofit organization, provides services to households throughout Baker, Clay, Duval, Flagler, Nassau, Putnam, and St. Johns counties in Florida. During FY 2009, the State awarded the Agency

\$1,682,870 in CSBG grant funds and \$2,750,840 in CSBG Recovery Act funds for the period July 1, 2009, through September 30, 2010.

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<sup>1</sup> During our audit period, the Florida Department of Community Affairs administered the CSBG program. However, the Department of Economic Opportunity now administers the CSBG program.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

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

### **Scope**

We reviewed \$398,346 of the \$2,416,817<sup>2</sup> CSBG Recovery Act grant award (the grant) that the Agency claimed under its CSBG Recovery Act agreement with the State of Florida for the period of October 1, 2009, through September 30, 2010. This review is part of a series of audits planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act. We did not perform an overall assessment of the Agency's internal control structure. Rather, we reviewed only the internal controls that pertained to our objective.

We performed fieldwork at the Agency's administrative office in Jacksonville, Florida.

### **Methodology**

To accomplish our objective, we:

- reviewed relevant Federal requirements;
- confirmed that the Agency was not excluded from receiving Federal funds;
- reviewed the terms and conditions of the CSBG Recovery Act agreement between the Agency and the State;
- reviewed the Agency's FY 2008 State monitoring report;
- reviewed the Agency's policies and procedures applicable to the grant;
- reviewed the Agency's cost allocation plan;
- reviewed the minutes from the Agency's board of directors meetings and reviewed the Agency's organizational chart;
- reviewed the Agency's annual Office of Management and Budget (OMB) Circular A-133<sup>3</sup> audit reports for FYs 2008 through 2010;

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<sup>2</sup> Although the Agency's CSBG Recovery Act grant award totaled \$2,750,840, the Agency only expended \$2,416,817 of that amount.

<sup>3</sup> Per OMB Circular A-133, §\_\_ .200(a) non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year.

- reconciled the Agency's CSBG Recovery Act financial status report for the year ended September 30, 2010, to its accounting records;
- judgmentally selected transactions totaling \$398,346 (\$139,139 in salary and related costs and \$259,207 in nonsalary costs) based on risk factors including whether the transactions:
  - were high dollar,
  - were for items usually considered unallowable (e.g., entertainment, memberships, etc.),
  - were recorded near the end of the grant period or outside of the grant period, or
  - appeared to be disproportionately allocated to the CSBG Recovery Act grant; 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

### **FINDINGS AND RECOMMENDATIONS**

Of the \$398,346 in CSBG costs that the State claimed on behalf of the Agency and that we reviewed, \$232,551 was allowable under the terms of the grant and applicable Federal regulations. However, the State claimed \$165,795 (or 42 percent of reviewed expenditures) in unallowable costs on behalf of the Agency. The unallowable costs included:

- \$113,108 in unsupported salary costs and related fringe benefits and indirect costs and
- \$52,687 in indirect costs that were improperly charged as direct.

In addition to charging unallowable costs to the State, the Agency entered into a services contract without providing for free and open competition to the maximum extent practical.

The Agency charged unallowable salary costs because its policies and procedures were not adequate to ensure that lump sum salary increase payments were properly supported. In addition, the Agency's policies and procedures were inconsistent with Federal regulations with respect to charging direct and indirect costs to Federal awards. Finally, because it perceived an immediate need for the services contract, the Agency did not follow Federal regulations.

Because the Agency charged \$165,795 in unallowable costs, these funds could not be used to reduce poverty, revitalize low income communities, and empower individuals to become fully

self-sufficient. By not always following Federal regulations, the Agency had no assurance that it received the most advantageous price for contracted services.

## **UNALLOWABLE COSTS**

### **Federal Requirements**

Section 678D(a)(1)(B) of the CSBG Act requires that States that receive CSBG funds ensure that cost and accounting standards of the Office of Management and Budget apply to a recipient of the funds under this subtitle. As a result, ACF determined that non-profit Community Action Agencies are subject to 45 CFR pt. 74. Federal regulations (45 CFR § 74.27(a)) state that the allowability of costs for nonprofit organizations will be determined in accordance with 2 CFR pt. 230 (formerly OMB Circular A-122), *Cost Principles for Non-Profit Organizations*.

Pursuant to 2 CFR pt. 230, App. A, A.2.a. and A.2.g., to be allowable under a Federal award, costs must be reasonable, allocable, and adequately documented. Additionally, salary and wage costs should be based on documented payrolls and the distribution to awards must be supported by personnel activity reports (2 CFR pt. 230, App. B, 8.m.(1)).

Pursuant to 45 CFR § 74.21(b)(6), recipients of Federal funds must develop written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

Costs incurred for the same purpose in like circumstances should be treated consistently as either direct or indirect costs (2 CFR pt. 230, App. A, C.1). Expenses of a general nature that do not relate solely to any major function of the organization, such as office supplies, local telephone, and memberships, should normally be treated as indirect costs (2 CFR pt. 230, App. A, D.3.b.(4)).

### **Unsupported Salary Payments**

The Agency charged \$113,108 to the grant for salary payments that were not based on documented payrolls and supported by personnel activity reports. The salary costs were composed of retroactive "lump sum" payments related to salary increases (\$90,209), related fringe benefits (\$14,614), and indirect costs (\$8,285). The \$113,108 included all lump sum payments made to employees funded by the CSBG Recovery Act.

In March 2010, the Agency implemented base salary increases for many of its employees, citing increased responsibilities under the grant, among other justifications. The salary increases were retroactive to the beginning of the grant period, so the Agency issued lump sum salary payments covering the months of October 2009 through February 2010 of the project. However, Agency records showed that none of the individuals who received retroactive payments had charged any time to the project during those months.

The Agency's policies and procedures were inadequate to ensure that lump sum salary increase payments charged to Federal awards were properly supported. Although the Agency's policies and procedures addressed situations allowing for lump sum base salary increase payments, the

policies and procedures did not address the requirement that such payments be based on documented payrolls or that the distribution to awards be supported by personnel activity reports.

**Indirect Costs Improperly Charged as Direct Costs**

The Agency charged the grant \$52,687 in direct costs that it had also charged as indirect costs.

The Agency used indirect cost rates to allocate costs that support or benefit all programs of the organization. As shown in the Agency’s cost allocation plan,<sup>4</sup> the Agency included costs such as minor equipment, office supplies, postage, and telephones in the indirect cost pools used to calculate these rates (using total direct salaries as the base). The Agency charged indirect costs to the grant based on these calculated rates but also charged the same types of costs to the grant as direct costs. Thus, the \$52,687 in costs that the Agency charged as direct costs to the grant was unallowable.

The table below shows the indirect costs that the Agency also charged as direct costs to the grant:

**Nonpersonnel Common Costs (Indirect Costs) Charged as Direct Costs**

<b>Cost Category</b>	<b>Amount Charged</b>	<b>Cost Category</b>	<b>Amount Charged</b>
Minor Equipment	\$17,549	Repairs-Vehicle	\$925
Supplies-Office	16,375	Repairs-Office Equipment	783
Space	8,339	Other-Meetings/Conferences	251
Employee Recruitment	3,022	Other-Membership Dues/Fees	99
Postage	2,446	Computer Software	58
Telephone	1,903	Travel-Company Gas	34
Employee Training	\$903		
		<b>Total</b>	<b>\$52,687</b>

These costs were improperly charged because the Agency had conflicting policies and procedures for charging direct and indirect costs that did not comply with the Federal requirement that costs incurred for the same purpose in like circumstances should be treated consistently as either direct or indirect costs (2 CFR pt. 230, App. A, C.1.). Specifically, the Agency’s *Accounting and Financial Policies and Procedures Manual* (the *Manual*) allowed certain cost categories to be chargeable as both direct and indirect costs. For example, according to the *Manual*, supplies and materials and postage and shipping costs were to be charged directly to a benefitting grant or program/function “to the maximum extent possible”; however, the Agency identified these costs as indirect costs in its cost allocation plan. In another example, the *Manual* stated that photocopying and printing costs should be charged “directly and indirectly based on copies made.” With regard to occupancy costs, the *Manual* stated that “the cost of space associated with common areas, such as hallways, restrooms, and conference rooms, shall

<sup>4</sup> The Agency’s cost allocation plan was not a federally approved plan but did set forth organizational policy to be applied to all of its programs and showed how the Agency calculated its indirect cost rates.

be charged directly or indirectly based on the space actually occupied by staff.” However, the Agency’s cost allocation plan identified “space” as an indirect cost.

### **Unallowable Costs Limited Resources for Program Goals**

Because the Agency charged \$165,795 in unallowable costs, the Agency could not use these funds to reduce poverty, revitalize low income communities, or empower individuals to become fully self-sufficient.

## **INADEQUATE JUSTIFICATION FOR SOLE-SOURCE CONTRACT**

### **Federal Requirements**

Pursuant to Federal regulations (45 CFR § 74.43), procurement transactions shall be conducted in a manner to provide for free and open competition to the maximum extent practical.

### **Agency Did Not Provide for Free and Open Competition for Procured Services**

The Agency entered into a \$55,080 services contract without providing for free and open competition to the maximum extent practical.

The Agency entered into a sole-source contract for program monitoring services during the grant period to cover the services needed for a vacant internal monitoring position within the Agency. The Agency awarded the contract to a firm without using an open bidding process because, according to Agency officials, the firm had prior experience with the Agency’s programming and because the potential negative impact of not having the function in place needed to be resolved quickly.

While the Agency felt that there was an urgency to quickly fill the responsibilities of the vacant position, the Agency did not assess the practicality of soliciting bids from other sources or recruiting a new Agency employee for the vacant position in a timely manner. Instead, the Agency appeared to have awarded the contract based on convenience alone.

Furthermore, the Agency did not follow its own requirements for issuing a sole-source contract, as its policies and procedures state that sole-source contracts should only be used when:

- the item or service is only available from one source,
- the situation is a public emergency,
- the awarding agency approves the purchase, or
- competition is deemed inadequate (insufficient bidders).

As a result, the Agency had no assurance that it received the most advantageous price on its program monitoring services contract.

## **RECOMMENDATIONS**

We recommend that the State:

- return to the Federal Government unallowable costs totaling \$165,795,
- ensure that the Agency improves its policies and procedures regarding salary increase payments and that it charges direct and indirect costs in accordance with Federal regulations, and
- ensure that the Agency conducts procurement transactions in a manner to provide for free and open competition to the maximum extent practical.

## **AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

### **Agency Comments**

In written comments on our draft report, the Agency disagreed with our first two findings, but concurred with our last finding.

In addressing our first finding on unsupported salary payments, the Agency acknowledged that the retroactive lump sum salary payments were not properly supported by time logs but nevertheless asserted that its workforce had achieved a tremendous amount of work throughout the program period. The Agency stated that it had a number of documents that substantiated its employees' contributions to the CSBG Recovery Act workload. The Agency provided its CSBG Recovery Act contract with the State of Florida, which showed the period of the program, employee positions, rates of pay for those positions, and the estimated hours to be charged (Exhibit #1). The Agency also provided the expected results for the entire program period (Exhibit #2) and the achieved outcomes for the period October 1, 2009, through March 31, 2010 (Exhibit #3). Based on these documents, the Agency did not believe the State should be required to repay the funds we identified as unsupported. Nonetheless, the Agency stated that it was reviewing its internal finance policies and procedures to enhance them to cover matters of this nature to prevent similar situations from recurring.

In response to our second finding on indirect costs improperly charged as direct costs, the Agency acknowledged that the "types" of costs identified in the OIG report, such as minor equipment, supplies, repairs, etc., are also "types" of costs included in its cost allocation pools. However, the Agency asserted that these costs, charged as direct costs, were not incurred for the same purpose, in like circumstances, as those included in the cost allocation pool.

The Agency explained that it carefully scrutinized each cost incurred to determine whether the cost was specifically identifiable with a final cost objective or incurred for common or joint objectives, then coded the cost accordingly. The Agency believed that treatment of the questioned costs as indirect costs would have resulted in allocation of costs to other awards that received no benefit from the cost.

The Agency contended that it had complied with the requirements of OMB Circular A-122 by evaluating all costs based on the type of costs incurred, the purpose of the cost, and whether a specific program or multiple programs received a related benefit.

The Agency's written comments are included as Appendix A. However, the additional documents that the Agency provided were too voluminous to include in this report.

### **Office of Inspector General Response**

We maintain that the State claimed on behalf of the Agency \$165,795 in unallowable costs including \$113,108 in unsupported salary costs, related fringe benefits, and indirect costs and \$52,687 in indirect costs that were improperly charged as direct.

In response to our first finding, the Agency's explanation and documentation to support the lump sum salary payments did not meet the standards of the Federal requirements for allowable compensation of personal services. Those standards require that support for salaries and wages be based on documented payrolls. The Agency was unable to provide this documentation.

Furthermore, in response to our second finding, the Agency did not substantiate with supporting documentation its justification for charging certain indirect-type costs as direct costs. For example, the Agency contended that the computers charged as direct costs represented an unlike circumstance because they were related solely to the completion of the grant; however, the documentation obtained during our review did not indicate this unlike circumstance. Moreover, some documentation showed that these costs included computers for individuals who did not charge time to the program or for administrative staff members whose efforts were not limited to the grant.

Documentation for other items reviewed showed them to be general use in nature because they would benefit multiple Agency programs and should therefore have been identified as indirect costs. For example, the cost of a printer for the Executive Director (whose responsibilities covered all agency programs) and a projector screen and phone that were to be used for board meetings, training, presentations, and other purposes, were all inappropriately charged as direct costs to the program.

## **STATE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

### **State Comments**

In response to our draft report, the State concurred, in part, with our first finding and did not address our second finding.

#### *Unallowable Costs*

The State agreed that the Agency did not properly support the \$113,108 in salary payments and that those payments were therefore unallowable. The State said that it planned to obtain a refund check in this amount and remit the check to the U.S. Department of Health and Human Services. The State also said that it would monitor the Agency to ensure that it follows correct payroll policies and procedures.

With regard to indirect costs incorrectly charged as direct costs, the State explained that the Agency's *Accounting and Financial Policies and Procedures Manual* allowed certain cost categories to be chargeable as both direct and indirect costs and that items the Agency included as indirect costs in its cost allocation plan could have been charged directly to the CSBG Recovery Act grant. The State also provided additional Agency documentation and Agency comments to support the direct charging of the costs to the grant. The documentation included explanations, invoices, receipts, and payment vouchers for the costs we identified as unallowable direct costs.<sup>5</sup>

For each cost item, the Agency said that it should have charged costs to the Recovery Act grant as direct costs because they were for the direct benefit of the grant and did not benefit all Agency programs.

For some cost items, the Agency gave additional, specific details why it believed it should have charged costs as direct costs. For example, the Agency said that it charged equipment costs entirely to the CSBG Recovery Act grant so that it could easily track the equipment to a specific funding source.

#### *Inadequate Justification for Sole Source Contract*

The State did not address our finding concerning the Agency's inadequate justification for a sole source contract.

The complete text of the State's response is included as Appendix B. The additional Agency documentation provided by the State is not included.

#### **Office of Inspector General Response**

We hold that the Agency's inconsistent treatment of direct and indirect costs resulted in unallowable charges to the CSBG Recovery Act grant; however, based on the State-provided documentation, we partially revised our findings to include some items as allowable direct costs. The remaining items, totaling \$52,687, were unallowable direct costs.

We continue to view the Agency's practice of charging similar items as both direct and indirect costs as not complying with OMB Circular A-122 provisions, namely, that a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost (2 CFR pt. 230, App. A, B.1.). Although the Agency attempted to show that the costs we identified as unallowable were for the direct benefit of the CSBG Recovery Act grant, it had allocated similar costs to the grant as indirect costs<sup>6</sup> through application of an indirect cost rate. The Agency also did not adequately demonstrate that the costs were incurred for different purposes, in circumstances unlike its usual treatment of the costs as indirect costs.

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<sup>5</sup> With the exception of \$2,423 for which the Agency did not provide support.

<sup>6</sup> The Agency referred to these costs as "common costs" in its cost allocation plan.

For example, the Agency's explanation for charging as direct costs to the CSBG Recovery Act grant 100 percent of minor equipment purchases<sup>7</sup> (so it could easily track the equipment to a specific funding source) didn't establish why the Agency treated the equipment differently from how it usually treated minor equipment, that is, as indirect costs. In its provided documentation, the Agency highlighted employees whose positions it had reportedly created for the grant and explained that the minor equipment purchased for those positions should have been charged directly because the costs did not benefit any other Agency programs. However, the Agency also charged minor equipment purchases as direct costs for other employees who had not been identified as working on the grant. Furthermore, because the Agency usually treated minor equipment purchases as indirect costs, the Agency's identification of some costs as being for the direct benefit of the grant is not sufficient to support that the costs were incurred for different purposes, in unlike circumstances.

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<sup>7</sup> Including such items as desks, printers, and computers.

## **APPENDIXES**

**APPENDIX A: NORTHEAST FLORIDA COMMUNITY ACTION AGENCY, INC.,  
COMMENTS**



[www.nfcaa.org](http://www.nfcaa.org)

May 11, 2012

Ms. Lori S. Pilcher  
Regional Inspector General For Audit Services  
Department of Health & Human Services  
Office of Audit Services, Region IV  
61 Forsyth Street, SW, Suite 3T41  
Atlanta, Georgia 30303

**Re: Report Number: A-04-11-01004**

Dear Ms. Pilcher:

Enclosed is our official response to the above referenced draft report submitted to us on April 13, 2012.

Pursuant to your instructions, we have indicated those items for which we concur and those we do not concur. We believe the state should repay none of the funds you require in the draft report. An electronic version of this paper response and enclosures were transmitted this date to [Mary.moreno@oig.hhs.gov](mailto:Mary.moreno@oig.hhs.gov).

Please let me know if you should require additional information or clarification.

Sincerely,

John W. Edwards, Jr., CCAP, CRT  
Executive Director

JWE/jrgb

Enclosures

c Denise Mandeville  
Melody Gissentanner



BAKER COUNTY • CLAY COUNTY • DUVAL COUNTY • FLAGLER COUNTY  
NASSAU COUNTY • PUTNAM COUNTY • ST. JOHNS COUNTY

MAIN OFFICE: 6700 Boulevard Center Drive, 4502 Building, Suite 200, Jacksonville, FL 32207  
P.O. Box 52025 (32201) • Telephone (904) 398-7472, Fax (904) 398-7474

**Northeast Florida Community Action Agency (NFCAA), Inc.**  
Response To  
Department of Health & Human Services  
Office of Inspector General

Report Number A-04-11-01004

**Finding**

\$113,108 in unsupported salary costs and related fringe benefits

**Agency Response**

The Agency does not concur with this finding. While there are no time logs for the period in question, what the Agency has are a number of documents substantiating the fact that CSBG/ARRA workload and outcomes were generated by the employees for the period in question.

The period of the CSBG/ARRA agreement with the State of Florida covered the period of July 1, 2009 – September 30, 2010. In this agreement, all employee positions who received the retroactive lump sum payment were identified. Please see enclosure marked as Exhibit #1.

For the period of October 1, 2009 – March 31, 2010, many outcomes were achieved and reported to the State of Florida. Clearly, this shows that the program benefitted from the labor generated for these results.

Enclosed and marked as Exhibit #2 is the CSBG/ARRA Agency work plan detailing the expected results to be achieved by the staff during the 12-month period beginning October 1, 2009. This supports the fact that staff was needed to generate results during the period in question.

Enclosed and marked as Exhibit #3 is the reported results to the State of Florida from October 1, 2009 to March 31, 2010. This report reflects that during this period our staff was working with over 600 people in the CSBG/ARRA program of which 30 unemployed people obtained jobs. This further substantiates that work was being performed by the employees without compensation at that time.

We recognize the deficiency that the lump sum salary increases were not properly supported by time logs. What we do stipulate is that a tremendous amount of work was achieved by our work force starting October 1, 2009, and ending September 30, 2010. The Agency believes this is a deficiency not requiring repayment of funds.

The Agency is reviewing its internal finance policies and procedures to enhance them to cover matters of this nature to prevent similar situations from recurring.

It seems punitive to disallow these costs given the fact that a huge workload was generated by Agency staff during the October 1, 2009, to March 31, 2010, time frame.

These funds, while not properly supported, were in fact used to reduce poverty, revitalize low-income communities and empower individuals to become more self-sufficient.

**Finding**

\$81,283 in indirect costs were improperly charged as direct.

**Agency Response**

The Agency does not concur with this finding. The Agency has reviewed the disallowed costs in the OIG report dated April 13, 2012 as well as the email received from Ben T. Johnson on June 30, 2011 which references certain sections and provisions of OMB Circular A-122. In the OIG draft report dated April 13, 2012, certain costs treated as direct costs were disallowed based on provisions of paragraph B.1., C.1. and D.3.b.(4) of OMB Circular A-122. These provisions preclude the treatment of a cost as direct if any other *cost incurred for the same purpose, in like circumstances*, has been allocated to an award as an indirect cost. The Agency recognizes that the "types" of costs identified in the OIG report, such as minor equipment, supplies, repairs, etc. are also "types" of costs included in its cost allocation pools. However, the Agency contends that the costs charged as direct costs, while the same type of costs, were not incurred for the same purpose, in like circumstances, as those included in the cost allocation pool.

NFCAA carefully scrutinizes each cost incurred to determine whether the cost is identifiable specifically with a final cost objective or incurred for common or joint objectives. The cost is then coded accordingly. It is the Agency's position that purchases of computer equipment, for example, used solely by staff of and for the direct benefit of the CSBG award (which are coded as direct costs) are not incurred for the same purpose and in like circumstances as computer equipment purchased for use by accounting staff and used for objectives common to all awards (charged as indirect costs).

The Agency contends that, in this hypothetical situation, inclusion of the computer purchased for use solely in the CSBG program in the cost allocation pool would result in cost being allocated to other programs that do not meet the criteria set forth in Paragraph A.4 (2) of OMB Circular A-122. This section requires that, in order for a cost to be allocable to an award, the cost must benefit "both the award and other work" and "be distributed in reasonable proportion to the benefit received." In this situation, as well as in relation to the costs questioned in the OIG report, NFCAA contends that treatment of these costs as indirect would result in allocation of costs to other awards that received no benefit from the cost.

Furthermore, it is the Agency's position that most types of costs, excluding direct client benefits, can have characteristics of either direct or indirect costs. Paragraph D.3.b(4) of OMB Circular A-122 recognizes this distinction when emphasizing the importance that "special care be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as direct or indirect costs." This paragraph specifically cites the example of telephone charges, computer costs and travel costs which should be treated as direct costs "wherever identifiable to a particular program" while other similar charges not identifiable to a specific program "should normally be treated as indirect costs". The most common example of this is salaries. All salaries are not treated as indirect simply because the fiscal officer's time cannot be identified to a specific program. The same would be true for equipment costs, postage and other costs.

NFCAA contends that its practice of evaluating all costs based not only on the type of costs incurred, but also the purpose of the cost and whether a specific program or multiple programs receive the related benefit, captures the essence of the requirements of OMB Circular A-122 in that the Agency is fully evaluating the purpose and circumstances surrounding the costs incurred and, in fact, consistently treating all costs on this basis as well as complying with the allocable costs provisions in paragraph A.4. of Attachment A.

**Finding**

The Agency entered into a services contract without providing for free and open competition.

**Agency Response**

The Agency agrees with this finding. As is the Agency's normal custom, all future procurement opportunities will be done consistent with its purchasing policies and procedures manual and with applicable regulations.

## APPENDIX B: FLORIDA DEPARTMENT OF ECONOMIC OPPORTUNITY COMMENTS

Rick Scott  
GOVERNOR



Hunting F. Deutsch  
EXECUTIVE DIRECTOR

FLORIDA DEPARTMENT OF  
ECONOMIC OPPORTUNITY

August 3, 2012

Ms. Lori S. Pilcher  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of Audit Services, Region IV  
61 Forsyth Street, SW, Suite 3T41  
Atlanta, GA 30303

Re: Audit Response to Report Number A-04-11-01004

Dear Ms. Pilcher:

This correspondence is the Florida Department of Economic Opportunity (Department) response to your letter dated June 13, 2012. The Department appreciates the opportunity to respond to the draft report entitled *Northeast Florida Community Action Agency, Inc., Did Not Always Charge Allowable Costs to the Community Services Block Grant-Recovery Act Program*.

The following are statements of concurrence or non-concurrence to the Findings and Recommendations.

#### FINDINGS AND RECOMMENDATIONS

##### Unsupported Salary Payments

The Northeast Florida Community Action Agency, Inc. (NFCAA) charged \$113,108 to the CSBG Recovery Act program for salary payments that were not based on documented payrolls and supported by personnel activity reports. The salary costs were composed of retroactive "lump sum" payments related to salary increases (\$90,209), related fringe benefits (\$14,614), and indirect costs (\$8,285). The \$113,108 included all lump sum payments made to employees funded by the CSBG Recovery Act.

In March 2010, the NFCAA implemented base salary increases for many of its employees, citing increased responsibilities under the CSBG Recovery Act program, among other justifications. The salary increases were retroactive to the start of the CSBG Recovery Act and the NFCAA issued lump sum salary payments covering the months of October 2009 through February 2010 of the project. However, NFCAA records showed that none of the individuals who received retroactive payments had charged any time to the project during those months.

Florida Department of Economic Opportunity, The Caldwell Building, 107 E. Madison Street, Tallahassee, FL 32399-4120  
850.FLA.2345 850.245.7165 850.921.3223 Fax [www.Florida.gov](http://www.Florida.gov) [www.fljtl.com/FLDEO](http://www.fljtl.com/FLDEO) [www.facebook.com/FLDEO](http://www.facebook.com/FLDEO)

An equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. All voice telephone numbers on this document may be reached by persons using TTY/TDD equipment via the Florida Relay Service at 711.

Ms. Lori S. Pilcher, Regional Inspector General for Audit Services  
August 3, 2012  
Page 2 of 3

The NFCAA's policies and procedures were inadequate to ensure that lump sum salary increase payments charged to Federal awards were properly supported. Although the NFCAA's policies and procedures addressed situations allowing for lump sum base salary increase payments, the policies and procedures did not address the requirement that such payments be based on documented payrolls or that the distribution to awards be supported by personnel activity reports.

Department Response: The Department concurs with the first finding in the draft report, in respect to the retroactive lump sum salary payments which were not properly supported by time logs or current time sheets. The amount of services provided by the NFCAA did reflect that they certainly had the need to increase their workforce to accomplish their outcomes, but the Department understands that without proper documentation to support the workforce the outcomes alone cannot replace the federal and state requirements for documented time and payroll.

The Department will obtain a refund check in the amount of \$113,108 for the unallowable salary costs, related fringe benefits and indirect costs as identified in the first finding and remit the check per further instructions from the US Department of Health and Human Services. The NFCAA will be directed to obtain these funds from their unrestricted funds and may not utilize any federal funds for this refund of unallowable costs.

The Department will also do a follow up monitoring on this issue within the next six months to make sure that all state and federal guidelines supporting this finding are included in the current policies and procedures of NFCAA and will review the payroll from this audit forward to ensure that the correct policies and procedures are strictly enforced.

#### **Indirect Costs Improperly Charged as Direct Costs**

The NFCAA charged the CSBG Recovery Act program \$81,283 in direct costs that the Agency had also charged as indirect costs.

The NFCAA used indirect cost rates to allocate costs to support or benefit all programs of the organization. As shown in the Agency's cost allocation, the Agency included costs such as minor equipment, office supplies, employee recruitment, and other contract services costs in the indirect cost pool used to calculate these rates (using total direct salaries as the base). The NFCAA charged indirect costs to the CSBG Recovery Act program based on these calculated rates but also charged the same types of costs to the program as direct costs. Thus, the \$81,283 in costs the NFCAA charged as direct costs to the program were unallowable.

#### Department Response:

The NFCAA has remitted further documentation and justification which the Department is requesting the auditors review before finalizing this finding. The documentation provided should clarify why NFCAA charged non-personnel common costs to direct costs instead of the indirect costs that are stipulated in NFCAA's cost allocation plan.

Ms. Lori S. Pilcher, Regional Inspector General for Audit Services  
August 3, 2012  
Page 3 of 3

As brought out in the audit, the NFCAA's *Accounting and Financial Policies and Procedures Manual (the Manual)* allowed certain cost categories to be chargeable as both direct and indirect costs. This procedure was exercised as identified especially during the CSBG Recovery Act program.

Items that were stated on the cost allocation plan as indirect, could have become a direct cost or a direct charge when it came to CSBG Recovery Act Program as you will see in the attached documentation. In these cases the charges were all direct charged to the CSBG Recovery Act program for that specific use at a specific time or location. At the present time in their operations these items could possibly be an indirect cost based on how many programs are presently operating with this equipment, supplies, space, staff, etc.

This letter being emailed today through your secured system; and, due to the amount of documentation presented by NFCAA, I am only attaching a Schedule of Documentation. A hard copy of all of the documentation identified in the schedule will be forthcoming with the original letter.

If you have any questions or comments about this report, please do not hesitate to contact Paula Lemmo, Community Program Manager, at (850) 717-8470 or through email at [Paula.Lemmo@deo.myflorida.com](mailto:Paula.Lemmo@deo.myflorida.com).

Sincerely,



Ken Reedy, Assistant Director  
Division of Community Development