

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

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

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**Lori S. Pilcher
Regional Inspector General**

**April 2013
A-04-11-01008**

Office of Inspector General

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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. 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 \$1 billion to ACF for the CSBG program in addition to its regular appropriation. CSBG Recovery Act funds were distributed to CAAs using an existing statutory formula. The primary objective of the CSBG funding 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.

Central Florida Community Action Agency, Inc. (the Agency), a private, nonprofit organization, provides services to households throughout Alachua, Levy, and Marion counties in Florida. During FY 2009, the State awarded the Agency \$605,245 in CSBG grant funds and \$944,122 in CSBG Recovery Act funds for the period July 1, 2009, through September 30, 2010.

OBJECTIVE

Our objective was to determine whether selected CSBG costs that the State claimed for the Agency's program expenditures were allowable under the terms of the Recovery Act grant and applicable Federal regulations.

SUMMARY OF FINDINGS

Of the \$325,576 in CSBG costs that the State claimed on behalf of the Agency and that we reviewed, \$165,172 was allowable under the terms of the grant and applicable Federal regulations. However, the State claimed \$122,324 in costs (or 38 percent of reviewed expenditures) that may not have been allocable to the Recovery Act grant and thus were potentially unallowable. The State also claimed \$38,080 in unallowable costs (or 12 percent of reviewed expenditures) on behalf of the Agency, including:

- \$34,143 in costs that were inadequately documented and
- \$3,937 in costs that were incurred outside of the grant period.

The potentially unallowable costs the State claimed on behalf of the Agency occurred because the Agency's method for allocating costs to Federal awards was not compliant with 2 CFR part 230. The unallowable costs the State claimed on behalf of the Agency occurred because the Agency did not follow its own policies and procedures for providing purchase requisitions, receipts, and other necessary supporting documentation for accounts payable transactions and travel-related expenditures. Furthermore, the Agency's policies and procedures were inadequate to ensure that the Agency charged to the grant only those costs properly incurred during the Recovery Act budget period.

Because the Agency charged unallowable costs to the Recovery Act grant, these funds could not be used to reduce poverty, revitalize low income communities, and empower individuals to become fully self-sufficient.

RECOMMENDATIONS

We recommend that the State:

- either return to the Federal government \$122,324 or work with the Agency to determine what portion of the \$122,324 was allocable to the Recovery Act grant,
- return to the Federal Government unallowable costs totaling \$38,080,
- ensure that the Agency uses a method for allocating costs to Federal awards that is compliant with 2 CFR part 230, and
- ensure that the Agency revises and follows its policies and procedures regarding the adequate documentation of all costs charged under Federal awards and the charging of costs during a grant period.

AGENCY COMMENTS

The Agency did not concur with all of our findings regarding allowability of costs. However, it did concur that \$4,867 was not allocable to the Recovery Act grant.

The Agency said that it calculated percentages to allocate costs to its grants based on square footage and that it had documented the percentages, which had been approved by its Board of Directors and the State, in the grant files.

The Agency also said that it had adequately documented with a voucher and signed invoice the costs that we had identified as inadequately documented. The Agency also provided screen printouts from its accounting software to document these costs.

Lastly, the Agency said that costs for services that occurred after the end of the grant were allowable because it had recorded the costs during the grant period and because it used a modified cash basis of accounting.

OFFICE OF INSPECTOR GENERAL RESPONSE

We maintain that the State claimed on behalf of the Agency \$122,324 in costs that may not have been allocable to the Recovery Act grant and \$38,080 in unallowable costs.

Although the Agency stated that the calculations for its allocation percentages were approved and documented in the grant award documents, we did not find this documentation in either the Agency-provided or State-provided documents.

The Agency also did not provide documentation showing why certain costs, totaling \$34,143, were necessary.

By charging costs for services provided outside of the grant period, the Agency did not adhere to the limitations contained in ACF's *Information Memorandum Transmittal No. 109*, which states that, if using a cash accounting system, services related to the Recovery Act must be provided on or before September 30, 2010.

STATE COMMENTS

In response to our draft report, the State concurred that the Agency made unallowable charges to the Recovery Act grant of \$4,867. However, the State explained that it had obtained supporting documentation from the Agency for all of the other costs that we identified as unallowable and potentially unallowable. It said that the Agency charged direct costs when the costs were incurred for a specific grant requirement and allocated indirect costs using only the portion of the costs that applied to the grant. The State also said the Agency's budget summary and work plan documents incorporated in the grant award document justified the expenditures we identified as unallowable costs.

Nonetheless, the State explained that it planned to visit the Agency to ensure that it improved its policies and procedures for documenting costs charged to Federal awards and to ensure that the Agency is compliant with 2 CFR part 230 in allocating costs to Federal awards.

OFFICE OF INSPECTOR GENERAL RESPONSE

We partially revised our findings based on new documentation from the Agency provided by the State. We removed \$15,151 in costs we had initially identified as unallowable costs and added these items to potentially unallowable costs. For the remaining costs we had identified as unallowable or potentially unallowable, we maintain that these items were either not necessarily allocable to the Recovery Act grant or not adequately documented.

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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 \$1 billion to ACF for the CSBG program in addition to its regular appropriation. 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.¹ 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.

Central Florida Community Action Agency, Inc.

Central Florida Community Action Agency, Inc. (the Agency), a private, nonprofit organization, provides services to households throughout Alachua, Levy, and Marion counties in Florida. During FY 2009, the State awarded the Agency \$605,245 in CSBG grant funds and \$944,122 in CSBG Recovery Act funds for the period July 1, 2009, through September 30, 2010.

¹ During our audit period, the Florida Department of Community Affairs oversaw the CSBG program. However, the CSBG program is now administered by the Department of Economic Opportunity.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether selected CSBG costs that the State claimed for the Agency's program expenditures were allowable under the terms of the Recovery Act grant and applicable Federal regulations.

Scope

We reviewed \$325,576 of the \$944,122 claimed by the Agency under its CSBG Recovery Act agreement with the State of Florida for the period of July 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 Gainesville, 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 State monitoring report dated June 20, 2011;
- reviewed the Agency's policies and procedures applicable to the CSBG program;
- 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-133² audit reports for FYs 2008 through 2010;

² 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 and reviewed 271 transactions totaling \$325,576 (30 salary transactions totaling \$12,400 and 241 nonsalary transactions totaling \$313,176) 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 objectives.

FINDINGS AND RECOMMENDATIONS

Of the \$325,576 in CSBG costs that the State claimed on behalf of the Agency and that we reviewed, \$165,172 was allowable under the terms of the grant and applicable Federal regulations. However, the State claimed \$122,324 in costs (or 38 percent of reviewed expenditures) that may not have been allocable to the Recovery Act grant and thus were potentially unallowable. The State also claimed \$38,080 in unallowable costs (or 12 percent of reviewed expenditures) on behalf of the Agency, including:

- \$34,143 in costs that were inadequately documented and
- \$3,937 in costs that were incurred outside of the grant period.

The potentially unallowable costs the State claimed on behalf of the Agency occurred because the Agency's method for allocating costs to Federal awards was not compliant with the applicable cost principles at 2 CFR part 230. The unallowable costs the State claimed on behalf of the Agency occurred because the Agency did not follow its own policies and procedures for providing purchase requisitions, receipts, and other necessary supporting documentation for

accounts payable transactions and travel-related expenditures. Furthermore, the Agency's policies and procedures were inadequate to ensure that the Agency charged to the grant only those costs properly incurred during the Recovery Act budget period.

Because the Agency charged unallowable costs to the Recovery Act grant, these funds could not be used to reduce poverty, revitalize low income communities, and empower individuals to become fully self-sufficient.

UNALLOWABLE COSTS

Federal Requirements and State Guidance

Section 678D(a)(1)(B) of the CSBG Act requires that States that receive CSBG funds ensure that cost and accounting standards of the OMB 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 part 74. Federal regulations (45 CFR § 74.27(a)) state that the allowability of costs for non-profit organizations will be determined in accordance with 2 CFR part 230 (OMB Circular A-122), *Cost Principles for Non-Profit Organizations*.

To be allowable under a Federal award, costs must be reasonable, allocable, and adequately documented (2 CFR part 230, App. A, §§ A.2.a. and A.2.g.).

A cost that benefits both a Federal award and other work is allocable to a Federal award if the cost can be distributed in reasonable proportion to the benefits received. Any cost allocable to a particular award or other cost objective may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by terms of the award (2 CFR part 230, App. A, § A.4).

Salary and wage costs should be based on documented payrolls and the distribution to awards must be supported by personnel activity reports (2 CFR part 230, App. B, § 8.m.(1)).

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 (45 CFR § 74.21(b)(6)).

If using a cash accounting system, services related to the CSBG Recovery Act grant must be provided on or before September 30, 2010 (*Information Memorandum Transmittal No. 109*).

In its *Guidance on Cost Allocation Planning*, the State stipulated that grant dollars received could not be used as a basis for allocating costs.

Costs Potentially Not Allocable

The Agency allocated \$122,324 in certain costs benefitting multiple projects to the Recovery Act grant that may not have been allocable to that award. In reviewing individual transactions, we

found that the Agency had allocated varying percentages of costs to the Recovery Act grant. For example, for transactions we reviewed that occurred during the month of September 2009, the Agency charged anywhere from 27 percent to 42 percent of these costs to the Recovery Act grant. In April 2010, the Agency charged anywhere from 18 to 36 percent of these costs to the grant. In September 2010, the Agency charged anywhere from 20 to 50 percent of these costs to the grant. In some cases, the Agency charged the entire amount of such costs as direct costs to the Recovery Act grant.³ According to the Agency, each time it received a new award, it recalculated the percentage of costs to be allocated to the Recovery Act grant. However, the Agency did not retain documentation tracking the changes it made to the allocation percentages. Without supporting documentation, we could not determine whether the costs were allocated to the Recovery Act grant in reasonable proportion to the benefits received. Therefore, we cannot determine whether the \$122,324 that the Agency charged to the Recovery Act grant was allowable.

The Agency charged these potentially unallowable costs to the Recovery Act grant because its method for allocating costs to Federal awards as described above did not comply with 2 CFR part 230.

Costs Inadequately Documented

The Agency did not adequately document \$34,143 in costs charged to the Recovery Act grant. For \$32,078 in nonsalary costs, the Agency did not provide purchase requisitions. For \$2,065 in salary costs, the Agency's documentation did not support amounts actually charged to the Recovery Act grant.

Nonsalary Costs

The Agency charged \$26,613 in equipment, supplies, and fuel costs, a few days before the grant expired without purchase requisitions or other documentation to indicate the purpose or need for the purchases. The charges included computers (\$18,322), a copier (\$3,630), a laminator (\$3,138), four global positioning navigation systems, printers and printing supplies, and other miscellaneous office supplies (\$1,523). In response to inquiries regarding the need for these items, the Agency stated, for example, that the computers were purchased due to a need for enhanced capabilities. In this same time period, the Agency also charged \$5,000 for the cost of plaques. The Agency's director of business operations told us that the Agency had purchased multiple plaques to recognize the Agency's success in exceeding certain program goals related to the Recovery Act. However, the vendor's invoice indicated that the Agency had purchased one plaque for \$5,000.

³ We excluded these particular items from our calculations of the allocation percentages used in September 2009 and in April and September 2010.

The Agency also charged \$465 for items that were for employees' personal use, including a satellite radio subscription for a vehicle, automobile window tinting, a clock radio, a DVD player, beverages, decorative plants, and dry cleaning services. The Agency provided no documentary support that these costs were incurred specifically for the purposes of the Recovery Act grant, benefitted the CSBG program, or were necessary for the overall operation of the organization.

The Agency did not adequately document all costs charged to the grant because it did not follow its own policies and procedures for providing purchase requisitions, receipts, and other necessary supporting documentation for accounts payable transactions and travel-related expenditures.

Salary Costs

The Agency charged \$2,065⁴ in salary costs to the Recovery Act grant that were inadequately documented. For 8 out of 30 sample items, the Agency either overcharged or undercharged the grant. Specifically:

- In five instances, the number of hours reported on the employees' timesheets was less than the number of hours associated with the salaries that were charged to the grant.
- In two instances, the number of hours reported on the employees' timesheets exceeded the number of hours associated with the salaries that were charged to the grant.
- In one instance, Agency officials stated that they charged the Recovery Act grant in error. Instead, it should have charged the amount to its (non-Recovery Act) CSBG grant.

The table below provides details on the eight charges:

Inadequately Documented Salary Charges

| Sample # | Hourly Pay Rate | Supported Grant Hours | Supported Grant Charge | Actual Grant Charge | Over (Under) Charge |
|-----------------|------------------------|------------------------------|-------------------------------|----------------------------|----------------------------|
| 3 | \$47.69 | 12.75 | \$608 | \$1,526 | \$918 |
| 4 | 47.69 | 12.75 | 609 | 382 | (227) |
| 7 | 46.15 | 11.5 | 531 | 522 | (9) |
| 19 | 46.15 | 12.75 | 588 | 1,154 | 565 |
| 20 | 14.42 | 11.4 | 164 | 216 | 52 |
| 26 | 14.54 | 28.8 | 419 | 843 | 425 |

⁴ The \$2,065 is the net amount of \$2,301 in overcharges and \$236 in undercharges.

| Sample # | Hourly Pay Rate | Supported Grant Hours | Supported Grant Charge | Actual Grant Charge | Over (Under) Charge |
|----------------------------------|-----------------|-----------------------|------------------------|---------------------|---------------------|
| 27 | 14.54 | 8 ⁵ | - | 116 | 116 |
| 28 | 15.58 | 14.4 | 224 | 449 | 224 |
| Total Over(Under) Charged | | | | | \$2,064 |

The unallowable salary costs occurred because the Agency did not follow its policies and procedures in regard to documentation of salary costs. Payroll costs were to be based on accurate, properly completed timesheets; however, employee timesheets were not always accurate or submitted in time for payroll processing. When employees did not submit timesheets in time for processing, the Agency charged payroll costs based on the employee's prior timesheet.

Costs Incurred Outside the Recovery Act Budget Period

The Agency charged \$3,937 in costs to the Recovery Act grant that were incurred outside the budget period of July 1, 2009, through September 30, 2010. This amount included mortgage payments for October 2010, a telephone lease agreement for October 2010 through June 2013, and a training session in October 2010.

Although the Agency had some policies and procedures addressing limitations of grant periods for incurring costs, its policies and procedures did not specifically address the requirement that only purchases made within the grant budget period are allowable.

RECOMMENDATIONS

We recommend that the State:

- either return to the Federal government \$122,324 or work with the Agency to determine what portion of the \$122,324 was allocable to the Recovery Act grant,
- return to the Federal Government unallowable costs totaling \$38,080,
- ensure that the Agency uses a method for allocating costs to Federal awards that is compliant with 2 CFR part 230, and
- ensure that the Agency revises and follows its policies and procedures regarding the adequate documentation of all costs charged under Federal awards and the charging of costs during a grant period.

⁵ Agency officials stated that these hours were charged in error.

AGENCY COMMENTS

The Agency did not concur with all of our findings regarding allowability of costs. However, it did concur that \$4,867 was not allocable to the Recovery Act grant.

With regard to costs identified as potentially not allocable, the Agency said that it assigned an allocation percentage based on square footage. The Agency said that its Board of Directors and the State approved these allocations and that the allocations were documented in the grant files.

The Agency said that, when it received a new grant, when a grant ended, or when a grant was modified, it calculated a new percentage to shift resources to accomplish the grants' requirements and that these new percentages were also approved by its Board of Directors and the State.

As for costs we identified as inadequately documented, the Agency stated that it had documented liabilities with a voucher and signed invoice. For the \$5,000 charged for plaques, the Agency asserted that we had misconstrued its explanation and that the plaques would be purchased over a period of time. It also said that items we identified as being for personal use had not been purchased for employees' personal use but, instead, benefitted the CSBG program and were necessary for the overall operation of the organization. The Agency also said that it did not necessarily keep hotel receipts with voucher packages for individual travelers because it consolidated documents to save paper and avoid excessive copying costs. In addition to its written response, the Agency provided screen printouts from its accounting software to document these costs.⁶

Concerning costs incurred outside of the grant period, the Agency stated that it had recorded the costs during the grant period, and, because it used a modified cash basis of accounting, it charged the costs to its active grants even though services occurred after the close of the grant.

The complete text of the Agency's comments is included as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE

We maintain that the State claimed on behalf of the Agency \$122,324 in costs that may not have been allocable to the Recovery Act grant and \$38,080 in unallowable costs.

Although the Agency stated that its recalculated allocation percentages were approved and documented in the grant award documents, we did not find such documentation in either the Agency-provided or State-provided documents. Furthermore, during onsite fieldwork, the Agency told us that it did not document the changes to the percentages used to allocate the grant costs. Thus, we remain unable to determine whether the \$122,324 was allocable to the grant.

⁶ This documentation was too voluminous to include in Appendix A.

For \$34,143 identified as unallowable costs, the Agency did not document the purpose or need for the charges. The Agency's policies and procedures stated that each voucher package should include, among other things, purchase requisitions; however, the Agency did not provide this documentation for the charges we identified as unallowable. Similarly, the accounting software screen printouts were also not adequate support as the documentation only showed the amount of a charge split between the Agency's various grants.

Finally, by charging costs for services provided outside of the grant period, the Agency did not adhere to the limitations contained in ACF's *Information Memorandum Transmittal No. 109*, which states that, if using a cash accounting system, services related to the Recovery Act must be provided on or before September 30, 2010. Thus, the \$3,937 in costs paid during the grant for services that continued after the grant ended was not allowable.

STATE COMMENTS

In response to our draft report, the State acknowledged that the Agency had charged some unallowable costs but did not concur with the majority of the unallowable costs and potentially unallowable costs we identified. The State concurred that the Agency made unallowable charges to the Recovery Act grant of \$4,867. However, the State explained that it had worked with the Agency and obtained supporting documentation for all of the other costs that we identified as unallowable and potentially unallowable. The State provided us with this documentation on behalf of the Agency.

The State said that it had worked with the Agency on a cost allocation plan and methodology for allocating direct and indirect costs during the CSBG Recovery Act grant period. According to the State, the Agency charged direct costs when the costs were incurred for a specific grant requirement and charged only the allocated portion of indirect costs that applied to the grant.

The State also said that the Agency's budget summary and work plan documents incorporated in the grant award document justified the expenditures we identified as unallowable costs.

Finally, the State explained that it planned to visit the Agency to ensure that it improved its policies and procedures for documenting costs charged to Federal awards and to ensure that the Agency is compliant with 2 CFR part 230 in allocating costs to Federal awards.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing documentation that the State provided on behalf of the Agency, we partially revised our findings. The State provided new documentation in the form of receipts that supported \$15,151 in costs we had initially identified as unallowable. However, because these costs were allocated using similar methodology as other potentially unallocable costs we identified, we added these items to potentially unallowable costs.

For the remaining costs we had identified as unallowable or potentially unallowable, we maintain that these items were either not necessarily allocable to the Recovery Act grant or not adequately supported. Much of the documentation the State provided was the same documentation we reviewed onsite at the Agency's offices, including vouchers, invoices, and screen prints of the Agency's accounting software. The State also provided copies of the Agency's cost allocation plan and approved budget as included in the grant award documents, which we also had previously reviewed.

From this documentation, we still could not determine whether costs the Agency allocated to the Recovery Act grant were allocable. Furthermore, the Agency's support for certain cost items, including equipment and other costs incurred near the end of the grant period, still failed to show how the costs were necessary and thus, allowable, to the Recovery Act grant.

APPENDIXES

APPENDIX A: AGENCY COMMENTS

**CENTRAL FLORIDA COMMUNITY
ACTION AGENCY (CFCAA), INC.**

NARRATIVE RESPONSE TO

**DEPARTMENT OF HEALTH
AND HUMAN SERVICES**

OFFICE OF INSPECTOR GENERAL

REPORT NUMBER: A-04-11-01008

SUMMARY OF FINDINGS

Of the \$325,576 in CSBG costs that the State claimed on behalf of the Agency and that we reviewed, \$165,173 was allowable under the terms of the grant and applicable Federal regulations. However, the State claimed \$107,098 in costs (or 33 percent of reviewed expenditures) that may not have been allocable to the Recovery Act grant and thus were potentially unallowable. The State also claimed \$53,305 in unallowable costs (or 16 percent of reviewed expenditures) on behalf of the Agency, including:

- \$49,294 in costs that were inadequately documented, and
- \$4,011 in costs that were incurred outside of the grant period.

The potentially unallowable costs the State claimed on behalf of the Agency occurred because the Agency's method for allocating costs to Federal awards was not compliant with 2 CFR pt. 230. The unallowable costs the State claimed on behalf of the Agency occurred because the Agency did not follow its own policies and procedures for providing purchase orders, receipts, and other necessary supporting documentation for accounts payable transactions and travel related expenditures. Furthermore, the Agency's policies and procedures were inadequate to ensure that the Agency charged to the grant only those costs properly incurred during the Recovery Act budget period.

Because the Agency charged unallowable costs to the Recovery Act grant, these funds could not be used to reduce poverty, revitalize low income communities, and empower individuals to become fully self-sufficient.

RESPONSE: CFCAA does not concur; specific rebuttals are presented below.

RECOMMENDATIONS

We recommend that the State:

- either return to the Federal government \$107,098 or work with the Agency to determine what portion of the \$107,098 was allocable to the Recovery Act grant,
- return to the Federal Government unallowable costs totaling \$53,305,
- ensure that the Agency uses a method for allocating costs to Federal awards that is compliant with 2 CFR pt. 230, and
- ensure that the Agency revises and follows its policies and procedures regarding the adequate documentation of all costs charged under Federal awards and the charging of costs during a grant period.

RESPONSE: CFCAA does not concur; specific rebuttals are presented below.

FINDINGS AND RECOMMENDATIONS

FINDING: Of the \$325,576 in CSBG costs that the State claimed on behalf of the Agency and that we reviewed, \$165,173 was allowable under the terms of the grant and applicable Federal regulations. However, the State claimed \$107,098 in costs (or 33 percent of reviewed expenditures) that may not have been allocable to the Recovery Act grant and thus were potentially unallowable.

RESPONSE: CFCAA does not concur with this finding. In the DHHS/OIG/OAS Excel spreadsheet "CFCAA-Questioned Costs Detail.xlsx, Potentially Unallowable" tab, provided to CFCAA for responses and as a vehicle for providing supporting rationale and documentation for the costs inclusion in the CSBG/ARRA grant expenditures, a line item by line item documented explanation was provided. The spreadsheet construction leads to the conclusion that the reason for the costs being questioned was that there was insufficient documentation as to the costs allowability; specifically, that allocation percentages were not documented. CFCAA provided the allowability criterion from OMB Circular A-122 and an allowability rationale demonstrating the cost items satisfied the criterion.

Furthermore, CFCAA provided allocability criterion (see 1. below), allocability rationale, additional rationale, and documentation methodology (see 2. below). CFCAA provided the following refutation for each of the itemized questioned costs from the DHHS/OIG/OAS Excel spreadsheet "CFCAA-Questioned Costs Detail.xlsx, Potentially Unallowable" tab by extending the spreadsheet several columns to accommodate the provided information:

1. OMB Circular A-122, Attachment A, 4. Allocable costs. States in part that: (1) "A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: ... (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown. ..." CFCAA uses as a basis for allocation of costs square footage (see attached policy and procedure). The percentage allocation assigned to a given square foot is provided in the Board of Directors' approved grants and grant modifications (which are on file with the Department of Economic Opportunity), which are subsequently approved by the funding/pass-through agency. As new grants are received and it is necessary to shift or add or delete resources to accomplish the grants' requirements, a new percentage is calculated and approved by the Board of Directors and the funding/pass-through agency in the new grant or grant modification.
2. To each check, a voucher and signed invoice were attached documenting the liability. Allocations were made as described in Note 1 above and the attached policy and procedure. The grants that were active at the time of the allocation were allocated costs. The percentages in effect at the time of allocation are documented in the grant and grant modification on file at the Department of Economic Opportunity (Board and pass-through agency approved grants and modifications).

Apparently, including the contractual/grant documents submitted and approved between CFCAA and the State of Florida, the rates used were not considered sufficient documentation.

Since CFCAA was informed that the arbitrary and capricious reasoning for not amending the findings was that the "initial findings" had been through an "internal quality control and legal review" and therefore could not be changed (see the quoted, italics provided, DHHS/OIG/OAS email sent August 3, 2012, below):

Thank you for providing the additional information related to our tentative findings. I wanted to make you aware that our report had already been through our internal quality control and legal review and we were unable to make any changes based on the additional information provided. Thus, the tentative findings I provided will be included in the issued draft report to CFCAA. We are still considering the additional information provided, but your response to our draft should include any necessary explanations or disagreements over statements of fact. Your response will then be incorporated in our 2nd draft report to be issued to the FL (Florida) Department of Economic Opportunity.

Furthermore, since the cited email indicated that the response to this draft report should include "any necessary explanations or disagreements," the expanded spreadsheet is being made a part of the response and is attached. Based on previous audits of CAA's in Florida during CSBG/ARRA examinations in which DHHS/OIG/OAS has, to the best of our knowledge, "stood by their audits" despite input from the audited agencies, we are hopeful that the comprehensive data we are providing in this response will encourage DHHS/OIG/OAS to reconsider their findings.

FINDING: The State also claimed \$53,305 in unallowable costs (or 16 percent of reviewed expenditures) on behalf of the Agency, including:

- \$49,294 in costs that were inadequately documented, and
- \$4,011 in costs that were incurred outside of the grant period.

RESPONSE: The "initial findings" presented to CFCAA indicated that the "inadequately documented" amount as \$49,299, not \$49,294. As detailed in the spreadsheet response (which is again submitted with this response), CFCAA concurred that of the \$49,299 indicated amount, an amount of \$4,867.23 was allocated erroneously as the

incorrect percentages were applied. As to the remaining \$44,431.77 of the \$49,299, CFCAA does not concur. As stated in the response to the "initial findings," in allocating costs, CFCAA considers all active grants current at the time of the allocation; this is part of the modified cash basis of accounting used by CFCAA. The reason given for the costs being unallowable was that inadequate documentation existed, specifically the percentages used to allocate the cost. The "findings" here, and as detailed in the "Unallowable - Non-salary" and "Unallowable Salary" tabs of the "CFCAA-Questioned Costs Detail.xlsx" spreadsheet, are subject to the same responses as above, namely:

1. OMB Circular A-122, Attachment A, 4. Allocable costs: States in part that: (1) "A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: ... (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown. ..." CFCAA uses as a basis for allocation of costs square footage (see attached policy and procedure). The percentage allocation assigned to a given square foot is provided in the Board of Directors' approved grants and grant modifications (which are on file with the Department of Economic Opportunity), which are subsequently approved by the funding/pass-through agency. As new grants are received and it is necessary to shift or add or delete resources to accomplish the grants' requirements, a new percentage is calculated and approved by the Board of Directors and the funding/pass-through agency in the new grant or grant modification.
2. To each check, a voucher and signed invoice were attached documenting the liability. Allocations were made as described in Note 1 above and the attached policy and procedure. The grants that were active at the time of the allocation were allocated costs. The percentages in effect at the time of allocation are documented in the grant and grant modification on file at the Department of Economic Opportunity (Board and pass-through agency approved grants and modifications).

Apparently, including the contractual/grant documents submitted and approved between CFCAA and the State of Florida, the rates used were not considered sufficient documentation.

As to the \$4,011 of charges being outside the period of performance, CFCAA does not concur. As shown in the attached "CFCAA-Questioned Costs Detail.xlsx," the charges were recorded between the September 19, 2009, start date for CFCAA's grant and the September 30, 2010, ending date of CFCAA's grant. As stated in the response to the "initial findings," in allocating costs, CFCAA considers all active grants current at the time of the allocation; this is part of the modified cash basis of accounting used by CFCAA. To do otherwise would be to skew the allocations in favor of some grants to the detriment of other grants, dependent only on how close to the end of a grant period the actual payment was made--for example, the costs of audits. As it was the ARRA grants that caused expanded auditing requirements to occur due to all recipients being arbitrarily classified as "At Risk," organizations. Yet, the audit did not occur until after the grant was closed. The audit is not, and cannot, be paid until the work has been accomplished.

To support the audit, CAA personnel must gather data, provide information to the auditors, and respond to the report and findings; all of which occur after the CSBG grants have closed. Thus, the cost of the audit cannot be charged to the grant that caused the cost to be incurred. In the case of the CSBG/ARRA audit, additional costs for the audit were incurred due to the "At Risk" status, yet the cost, not to mention the additional employee-related costs, were not charged to the grant causing the additional work. As standard practice, audit costs from the previous audits are charged to the then open grants when the payment is made.

The only other approach, and apparently the one being put forth here is to levy a requirement, the cost of satisfying which, is to be borne by the CAA. This practice would amount to an unfunded mandate and would cause serious financial consequences for CFCAA and most probably all other CAA's in the country (see OMB Circular A-122 Attachment A, 4.(3)), which was presented in the response to the "initial findings" and is presented above in Note 1. The same rationale can be applied to the DHHS/OIG/OAS review; it came after the CSBG/ARRA grant was closed. It caused excessive amounts of energy and time to be expended by CFCAA personnel, and the cost will be borne by

the grants open during the time of the review and responses. The rationale being put forth by DHHS can only be interpreted as forcing an unfunded mandate on CFCAA and other CAA's. On the other hand, the most equitable practice available is the one used by CFCAA; the grants open at the time that benefit from the expenditure, either as a direct beneficiary or as a beneficiary of the continued existence of the CAA, are charged with costs when paid.

FINDING: The potentially unallowable costs the State claimed on behalf of the Agency occurred because the Agency's method for allocating costs to Federal awards was not compliant with the applicable cost principles at 2 CFR pt. 230.

RESPONSE: CFCAA does not concur; CFCAA complies with OMB Circular A-122. This finding is so broad and non-specific that a more detailed response is not possible.

FINDING: The unallowable costs the State claimed on behalf of the Agency occurred because the Agency did not follow its own policies and procedures for providing purchase orders, receipts, and other necessary supporting documentation for accounts payable transactions and travel-related expenditures. Furthermore, the Agency's policies and procedures were inadequate to ensure that the Agency charged to the grant only those costs properly incurred during the Recovery Act budget period.

RESPONSE: CFCAA does not concur; CFCAA policies and procedures meet the requirements of OMB Circular A-122 and were followed. The allocation documentation for the accounts payable transactions and the travel-related expenditures were contained in the grants and modifications as described in the CFCAA response to the "initial findings," to wit:

1. OMB Circular A-122, Attachment A, 4, Allocable costs. States in part that: (1) "A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: ... (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown. ..." CFCAA uses as a basis for allocation of costs square footage (see attached policy and procedure). The percentage allocation assigned to a given square foot is provided in the Board of Directors' approved grants and grant modifications (which are on file with the Department of Economic Opportunity), which are subsequently approved by the funding/pass-through agency. As new grants are received and it is necessary to shift or add or delete resources to accomplish the grants' requirements, a new percentage is calculated and approved by the Board of Directors and the funding/pass-through agency in the new grant or grant modification.
2. To each check, a voucher and signed invoice were attached documenting the liability. Allocations were made as described in Note 1 above and the attached policy and procedure. The grants that were active at the time of the allocation, were allocated costs. The percentages in effect at the time of allocation are documented in the grant and grant modification on file at the Department of Economic Opportunity (Board and pass-through agency approved grants and modifications).

Furthermore, the costs incurred were charged to open grants benefitting from the charge. As shown in the attached "CFCAA-Questioned Costs Detail.xlsx," the charges were recorded between the September 19, 2009, start date for CFCAA's grant and September 30, 2010, ending date of CFCAA's grant. As stated in the response to the "initial findings," in allocating costs, CFCAA considers all active grants current at the time of the allocation; this is part of the modified cash basis of accounting used by CFCAA.

To do otherwise would be to skew the allocations in favor of some grants to the detriment of other grants, dependent only on how close to the end of a grant period the actual payment was made--for example, the costs of audits. As it is the ARRA grants caused additional auditing to occur due to all recipients being arbitrarily classified as "At Risk," yet the audit does not occur until after the grant has closed. The audit is not, and cannot, be paid until the work has been accomplished. To support the audit, CAA personnel must gather data, provide information to the auditors, and

respond to the report and findings; all of which occur after the CSBG grants have closed. Thus, the cost of the audit cannot be charged to the grant that caused the cost to be incurred. In the case of the CSBG audit, additional costs for the audit were incurred due to the "At Risk" status, yet the cost, not to mention the additional cost, were not charged to the grant causing the problem. As standard practice, audit costs from the previous audits are charged to the then open grants when the payment is made.

The only other approach, and apparently the one being put forth here is to levy a requirement, the cost of satisfying which, is to be borne by the CAA. This practice would amount to an unfunded mandate and would cause serious financial consequences for CFCAA and most probably all other CAA's in the country (see OMB Circular A-122 Attachment A, 4.(3)), which was presented in response to the "initial findings" and is presented above in Note 1. The same rationale can be applied to the DHHS/OIG/OAS review; it came after the CSBG ARRA grant was closed, it caused excessive amounts of energy and time to be expended by CFCAA personnel, and the cost will be borne by the grants open during the time of the review and responses. The rationale being put forth by DHHS can only be interpreted as forcing an unfunded mandate on CFCAA and other CAA's. On the other hand, the most equitable practice available is the one used by CFCAA; the grants open at the time that benefit from the expenditure, either as a direct beneficiary or as a beneficiary of the continued existence of the CAA, are charged with costs when paid.

Furthermore, the CFCAA policies and procedures reference purchase requisitions, not purchase orders. This is an important distinction in this particular matter.

FINDING: Because the Agency charged unallowable costs to the Recovery Act grant, these funds could not be used to reduce poverty, revitalize low income communities, and empower individuals to become fully self-sufficient.

RESPONSE: The costs incurred were allowable and allocable. Therefore, the "funds were used to reduce poverty, revitalize low income communities, and empower individuals to become fully self-sufficient," and the funds also contributed to creating and/or retaining jobs, a primary goal of CSBG/ARRA.

FINDING: UNALLOWABLE COSTS

Federal Requirements and State Guidance

Section 678D(a)(1)(B) of the CSBG Act requires that States that receive CSBG funds ensure that cost and accounting standards of the OMB 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*.

RESPONSE: CFCAA does not concur with the finding that 2 CFR pt. 230 was formerly OMB Circular A-122. OMB Circular A-122 is very much in force; it is **THE** determining document for costs on federal grants made by nonprofit organizations such as CFCAA. Statutorily, 2 CFR pt. 230 can only be a codification of OMB Circular A-122. Deviations from OMB Circular A-122 that may exist must have been approved by the Office of Management and Budget. Furthermore, OMB Circular A-122 is cited in all federal grants awarded to CFCAA. OMB Circular A-122 governs; therefore, all responses have cited OMB Circular A-122.

FINDING: 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.

RESPONSE: CFCAA does not concur with the finding that 2 CFR pt. 230 was formerly OMB Circular A-122. OMB Circular A-122 is very much in force; it is **THE** determining document for costs on federal grants made by nonprofit organizations such as CFCAA. Statutorily, 2 CFR pt. 230 can only be a codification of OMB Circular A-122. Deviations from OMB Circular A-122 that may exist must have been approved by the Office of Management and Budget. Furthermore, OMB Circular A-122 is cited in all federal grants awarded to CFCAA. OMB Circular A-122 governs; therefore, all responses have cited OMB Circular A-122. It is noted that OMB Circular A-122 levies the same requirements for cost to be "reasonable, allocable, and adequately documented."

CFCAA emphatically contends that the costs charged to CSBG/ARRA were reasonable, allocable (except for the \$4,867.23 discussed above), and documented, to wit:

1. OMB Circular A-122, Attachment A, 4. Allocable costs. States in part that: (1) "A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: ... (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown. ..." CFCAA uses as a basis for allocation of costs square footage (see attached policy and procedure). The percentage allocation assigned to a given square foot is provided in the Board of Directors' approved grants and grant modifications (which are on file with the Department of Economic Opportunity), which are subsequently approved by the funding/pass-through agency. As new grants are received and it is necessary to shift or add or delete resources to accomplish the grants' requirements, a new percentage is calculated and approved by the Board of Directors and the funding/pass-through agency in the new grant or grant modification.

2. To each check, a voucher and signed invoice were attached documenting the liability. Allocations were made as described in Note 1 above and the attached policy and procedure. The grants that were active at the time of the allocation were allocated costs. The percentages in effect at the time of allocation are documented in the grant and grant modification on file at the Department of Economic Opportunity (Board and pass-through agency approved grants and modifications).

FINDING: A cost that benefits both a Federal award and other work is allocable to a Federal award if the cost can be distributed in reasonable proportion to the benefits received. Any cost allocable to a particular award or other cost objective may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by terms of the award (2 CFR pt. 230, App. A, § A.4).

RESPONSE: CFCAA does not concur with the finding that 2 CFR pt. 230 was formerly OMB Circular A-122. OMB Circular A-122 is very much in force; it is **THE** determining document for costs on federal grants made by nonprofit organizations such as CFCAA. Statutorily, 2 CFR pt. 230 can only be a codification of OMB Circular A-122. Deviations from OMB Circular A-122 that may exist must have been approved by the Office of Management and Budget. Furthermore, OMB Circular A-122 is cited in all federal grants awarded to CFCAA. OMB Circular A-122 governs; therefore, all responses have cited OMB Circular A-122. OMB Circular A-122 levies the same requirements as cited in this finding. CFCAA emphatically contends that costs charged to CSBG/ARRA were allocable (except for the \$4,867.23 discussed above) and costs were not "shifted to other Federal awards to overcome funding deficiencies."

FINDING: Pursuant to 2 CFR pt. 230, App. B, § 8.m.(1), salary and wage costs should be based on documented payrolls and the distribution to awards must be supported by personnel activity reports.

RESPONSE: CFCAA does not concur with the finding that 2 CFR pt. 230 was formerly OMB Circular A-122. OMB Circular A-122 is very much in force; it is **THE** determining document for costs on federal grants made by nonprofit organizations such as CFCAA. Statutorily, 2 CFR pt. 230 can only be a codification of OMB Circular A-122. Deviations from OMB Circular A-122 that may exist must have been approved by the Office of Management and Budget. Furthermore, OMB Circular A-122 is cited in all federal grants awarded to CFCAA. OMB Circular A-122 governs; therefore, all responses have cited OMB Circular A-122. OMB Circular A-122 levies the same requirements as cited in this finding. CFCAA payrolls are documented and distributions are supported by "personnel activity reports" (except for \$1,369.93 of the \$4,867.23 that relate to payroll).

FINDING: 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.

RESPONSE: 45 CFR § 74 is a DHHS codification of OMB Circular A-110, Appendix A. As with 2 CFR pt. 230, deviations from OMB Circular A-110 must have been approved by the Office of Management and Budget. OMB Circular A-110 is cited in CFCAA Federal grants and therefore controls. CFCAA has such a procedure which is

presented in the format used by the applicable OMB Circular. The procedure was included in the response to the "initial findings," which are included as part of the "CFCAA-Questioned Costs Detail.xlsx" attached hereto.

FINDING: In its *Guidance on Cost Allocation Planning*, the State stipulated that grant dollars received could not be used as a basis for allocating costs.

RESPONSE: CFCAA expresses no opinion about what the State stipulated. However, CFCAA does not use the "grant dollars received ... as a basis for allocating costs." CFCAA looks to the tasks required by the grant, the amount of effort by which staff members to be expended in accomplishing the required tasks, and any funds that may need to be expended outside of CFCAA to accomplish the tasks of the grants as well as the grants' share of general costs of the organization as allowed in OMB Circular A-122, as explained in the note provided in the response to the "initial findings," as part of the "CFCAA-Questioned Costs Detail.xlsx," and in subparagraph (3) below.

1. OMB Circular A-122, Attachment A, 4. Allocable costs. States in part that: "A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: ... (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown. ..." CFCAA uses as a basis for allocation of costs square footage (see attached policy and procedure). The percentage allocation assigned to a given square foot is provided in the Board of Directors' approved grants and grant modifications (which are on file with the Department of Economic Opportunity), which are subsequently approved by the funding/pass-through agency. As new grants are received and it is necessary to shift or add or delete resources to accomplish the grants' requirements, a new percentage is calculated and approved by the Board of Directors and the funding/pass-through agency in the new grant or grant modification.

2. To each check, a voucher and signed invoice were attached documenting the liability. Allocations were made as described in Note 1 above and the attached policy and procedure. The grants that were active at the time of the allocation were allocated costs. The percentages in effect at the time of allocation are documented in the grant and grant modification on file at the Department of Economic Opportunity (Board and pass-through agency approved grants and modifications).

FINDING: Costs Potentially Not Allocable

The Agency allocated \$107,098 in certain costs benefitting multiple projects to the Recovery Act grant that may not have been allocable to that award. In reviewing individual transactions, we found that the Agency had allocated varying percentages of costs to the Recovery Act grant. For example, for transactions we reviewed that occurred during the month of September 2009, the Agency charged anywhere from 27 percent to 42 percent of these costs to the Recovery Act grant. In April 2010, the Agency charged anywhere from 18 to 36 percent of these costs to the grant. In September 2010, the Agency charged anywhere from 20 to 50 percent of these costs to the grant. In some cases, the Agency charged the entire amount of such costs as direct costs to the Recovery Act grant.³ According to the Agency, each time it received a new award, it recalculated the percentage of costs allocated to the Recovery Act grant based on the proportion of its available funds. However, the Agency did not retain documentation tracking the changes it made to the allocation percentages. Without supporting documentation, we could not determine whether the costs were allocated to the Recovery Act grant in reasonable proportion to the benefits received. Therefore, we could not determine whether the \$107,098 that the Agency charged to the Recovery Act grant was allowable.

The Agency charged these potentially unallowable costs to the Recovery Act grant because its method for allocating costs to Federal awards as described above did not comply with 2 CFR pt. 230.

RESPONSE: CFCAA does not concur with this finding. In addition, CFCAA does not concur with the finding that 2 CFR pt. 230 was formerly OMB Circular A-122. OMB Circular A-122 is very much in force; it is *THE* determining document for costs on federal grants made by nonprofit organizations, such as CFCAA. Statutorily, 2 CFR pt. 230 can only be a codification of OMB Circular A-122. Deviations from OMB Circular A-122 that may exist must have been approved by the Office of Management and Budget. Furthermore, OMB Circular A-122 is

cited in all federal grants awarded to CFCAA. OMB Circular A-122 governs; therefore, all responses have cited OMB Circular A-122. Furthermore, as provided in the response to the "initial findings," the allocation rates are documented in the grant and grant modifications:

1. OMB Circular A-122, Attachment A, 4. Allocable costs. States in part that: (1) "A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: ... (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown. ..." CFCAA uses as a basis for allocation of costs square footage (see attached policy and procedure). The percentage allocation assigned to a given square foot is provided in the Board of Directors' approved grants and grant modifications (which are on file with the Department of Economic Opportunity), which are subsequently approved by the funding/pass-through agency. As new grants are received and it is necessary to shift or add or delete resources to accomplish the grants' requirements, a new percentage is calculated and approved by the Board of Directors and the funding/pass-through agency in the new grant or grant modification.
2. To each check, a voucher and signed invoice were attached documenting the liability. Allocations were made as described in Note 1 above and the attached policy and procedure. The grants that were active at the time of the allocation were allocated costs. The percentages in effect at the time of allocation are documented in the grant and grant modification on file at the Department of Economic Opportunity (Board and pass-through agency approved grants and modifications).

As previously explained herein, and in the response to the "initial findings," CFCAA re-evaluates the allocation of resources required to accomplish the tasks of multiple grants and grant modification whenever a new grant is received, an old grant is ended, or modifications to the then existing grants are received. The re-evaluation leads to changes in the appropriate percentages to be applied to each grant. Hence, the changes in the percentages to the various grants reflect the amount of work being required by the various grants and the allocation of resources required to satisfy the grants' requirements. To do otherwise would mean that allowable and allocable costs would not be distributed in an equitable fashion and instead CFCAA would have to "eat" these costs which would cause serious financial damage to CFCAA.

FINDING: Costs Inadequately Documented

The Agency did not adequately document \$49,294 in costs charged to the Recovery Act grant. For \$47,229 in nonsalary costs, the Agency did not provide purchase orders or receipts. For \$2,065 in salary costs, the Agency's documentation did not support amounts actually charged to the Recovery Act grant.

Nonsalary Costs

The Agency charged \$26,613 in equipment, supplies, and fuel costs, a few days before the grant expired without purchase orders or other documentation to indicate the purpose or need for the purchases. The charges included computers (\$18,322), a copier (\$3,630), a laminator (\$3,138), four global positioning navigation systems, printers and printing supplies, and other miscellaneous office supplies (\$1,523). In response to inquiries regarding the need for these items, the Agency stated, for example, that the computers were purchased due to a need for enhanced capabilities. In this same time period, the Agency also charged \$5,000 for the cost of plaques. The Agency's director of business operations told us that the Agency had purchased multiple plaques to recognize the Agency's success in exceeding certain program goals related to the Recovery Act. However, the vendor's invoice indicated that the Agency had purchased one plaque for \$5,000. ***NOTE: Statement was misconstrued by auditor(s). Intent of comment by director of business operations was that plaques would be purchased over a period of time.***

In addition, the Agency did not provide receipts for \$15,151 in costs including lodging, membership dues, supplies, training, facilities rental, fuel, postage, vehicle repair, and meals. For example, the Agency charged \$3,051 in hotel lodging costs; however, the Agency did not provide receipts for the charges.⁴

The Agency also charged \$465 for items that were for employees' personal use, including a satellite radio subscription for a vehicle, automobile window tinting, a clock radio, a DVD player, beverages, decorative plants, and dry cleaning services. The Agency provided no documentary support that these costs were incurred specifically for the purposes of the Recovery Act grant, benefitted the CSBG program, or were necessary for the overall operation of the organization. **NOTE: No items were purchased for employees' personal use. The lifetime satellite radio subscription was for an agency vehicle. Automobile window tinting was installed in agency vehicles which is a common practice and especially in warm weather climates. The dry cleaning expense was incurred to clean carpets in our offices. "Non-alcoholic" beverages were purchased in conjunction with board meetings and training events. Decorative plants were purchased for the agency's lobby area. A DVD player is ancillary equipment for our television to be used at board meetings and at training events. In accordance with OMB Circular A-122 guidelines, these "shared" costs "benefitted the CSBG program and were necessary for the overall operation of the organization." We could not locate documentation relative to the clock radio.**

The Agency did not adequately document all costs charged to the grant because it did not follow its own policies and procedures for providing purchase orders, receipts, and other necessary supporting documentation for accounts payable transactions and travel-related expenditures.

Salary Costs

The Agency charged \$2,065 in salary costs to the Recovery Act grant that were inadequately documented. For 8 out of 30 sample items, the Agency either overcharged or undercharged the grant. Specifically:

- In five instances, the number of hours reported on the employees' timesheets was less than the number of hours associated with the salaries that were charged to the grant.
- In two instances, the number of hours reported on the employees' timesheets exceeded the number of hours associated with the salaries that were charged to the grant.
- In one instance, Agency officials stated that they charged the Recovery Act grant in error. Instead, it should have charged the amount to its (non-Recovery Act) CSBG grant.

The table below provides details on the eight charges:

Inadequately Documented Salary Charges

| Sample # | Hourly Pay Rate | Supported Grant Hours | Supported Grant Charge | Actual Grant Charge | Over (Under) Charge |
|---------------------------|-----------------|-----------------------|------------------------|---------------------|---------------------|
| 3 | 47.69 | 12.75 | 608 | 1526 | 918 |
| 4 | 47.69 | 12.75 | 609 | 382 | (227) |
| 7 | 46.15 | 11.5 | 531 | 522 | (9) |
| 19 | 46.15 | 12.75 | 588 | 1154 | 565 |
| 20 | 14.42 | 11.4 | 164 | 216 | 52 |
| 26 | 14.54 | 28.8 | 419 | 843 | 425 |
| 27 | 14.54 | 8 | 0 | 116 | 116 |
| 28 | 15.58 | 14.4 | 224 | 449 | 224 |
| Total Over (Under) Charge | | | | | 2064 |

The unallowable salary costs occurred because the Agency did not follow its policies and procedures in regard to documentation of salary costs. Payroll costs were to be based on accurate, properly completed timesheets; however, employee timesheets were not always accurate or submitted in time for payroll processing. When employees did not submit timesheets in time for processing, the Agency charged payroll costs based on the employee's prior timesheet.

RESPONSE: As explained in the previous responses to the iterations of the findings, CFCAA does not concur except for the total amount of \$4,867.23, the split between “Nonsalary” and “Salary” according to previous responses hereinabove. CFCAA provides the documentation for the allocation of costs, to wit:

1. OMB Circular A-122, Attachment A, 4. Allocable costs. States in part that: (1) "A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: ... (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown. ..." CFCAA uses as a basis for allocation of costs square footage (see attached policy and procedure). The percentage allocation assigned to a given square foot is provided in the Board of Directors' approved grants and grant modifications (which are on file with the Department of Economic Opportunity), which are subsequently approved by the funding/pass-through agency. As new grants are received and it is necessary to shift or add or delete resources to accomplish the grants' requirements, a new percentage is calculated and approved by the Board of Directors and the funding/pass-through agency in the new grant or grant modification.
2. To each check, a voucher and signed invoice were attached documenting the liability. Allocations were made as described in Note 1 above and the attached policy and procedure. The grants that were active at the time of the allocation were allocated costs. The percentages in effect at the time of allocation are documented in the grant and grant modification on file at the Department of Economic Opportunity (Board and pass-through agency approved grants and modifications).

CFCAA consolidates the documents rather than “kill an excessive number of trees” to attach every possible piece of documentation to each payment and generate excessive copying costs. For example, as explained numerous times herein, the allocation percentages are documented in the grants and grant modifications. Copies of the grants and grant modifications affected by each payment are not included in a given voucher package. Such costs as lodging are usually paid with a credit card, as hotels expect a credit card rather than purchase orders, and the payment to the credit card company will include a copy of the hotel invoice; a separate copy of the hotel invoice will not necessarily be put in each voucher package for an individual traveler. If CFCAA had been asked at the time for a breakout for a given voucher package of the allocation made for it, a screen-print of the finance software audit trail could have been provided. The screen-prints are attached hereto.

As for the timing of such items as the above cited computer needed for enhanced capabilities, as stated in the response to the “initial findings,” in allocating costs, CFCAA considers all active grants current at the time of the allocation; this is part of the modified cash basis of accounting used by CFCAA. To do otherwise would be to skew the allocations in favor of some grants to the detriment of other grants, dependent only on how close to the end of a grant period the actual payment was made.

In the “CFCAA - Questioned Costs Detail.xlsx,” the specific items described above included in this finding, all indications of insufficient documentation centered on the percentages applied, not entire receipts missing. The fact that the spreadsheet credited CSBG/ARRA with some of the costs of these items reinforced the understanding that the concern with documentation related to the percentages used for allocating the costs. The response to the “initial findings” (see the attached “CFCAA - Questioned Costs Detail.xlsx”), provided information premised on the allocation hypothesis.

FINDING: Costs Incurred Outside the Recovery Act Budget Period

The Agency charged \$4,011 in costs to the Recovery Act grant that were incurred outside the budget period of July 1, 2009, through September 30, 2010. This amount included mortgage payments for October 2010, a telephone lease agreement for October 2010 through June 2013, a training session in October 2010, and retroactive payments for an Information Technology contract from October 2007 through June 2009. Although the Agency had some policies and procedures addressing limitations of grant periods for incurring costs, its policies and procedures did not specifically address the requirement that only purchases made within the grant budget period are allowable.

RESPONSE: As to the \$4,011 charges being outside the period of performance, CFCAA does not concur. As shown in the attached "CFCAA-Questioned Costs Detail.xlsx," the charges were recorded between the September 19, 2009, start date for CFCAA's grant and the September 30, 2010, ending date of CFCAA's grant. As stated in the response to the "initial findings," in allocating costs, CFCAA considers all active grants current at the time of the allocation; this is part of the modified cash basis of accounting used by CFCAA. To do otherwise would be to skew the allocations in favor of some grants to the detriment of other grants, dependent only on how close to the end of a grant period the actual payment was made--for example, the costs of audits. The ARRA grants caused additional auditing to occur due to all recipients being arbitrarily classified as "At Risk," yet the audit does not occur until after the grant has closed. The audit is not, and cannot, be paid until the work has been accomplished.

To support the audit, CAA personnel must gather data, provide information to the auditors, and respond to the report and findings; all of which occur after the CSBG grants have closed. Thus the cost of the audit cannot be charged to the grant that caused the cost to be incurred. In the case of the CSBG audit, additional costs for the audit were incurred due to the "At Risk" status, yet the cost, not to mention the additional cost, were not charged to the grant causing the problem. As standard practice, audit costs from the previous audits are charged to the then open grants when the payment is made.

The only other approach, and apparently the one being put forth here is to levy a requirement, the cost of satisfying which, is to be borne by the CAA. This practice would amount to an unfunded mandate and would cause serious financial consequences for CFCAA and most probably all other CAA's in the country (see OMB Circular A-122 Attachment A, 4.(3)), which was presented in in response to the "initial findings" and is presented above in Note 1. The same rationale can be applied to the DHHS/OIG/OAS review; it came after the CSBG/ARRA grant was closed. It caused excessive amounts of energy and time to be expended by CFCAA personnel, and the cost will be borne by the grants open during the time of the review and responses. The rationale being put forth by DHHS can only be interpreted as forcing an unfunded mandate on CFCAA and other CAA's. On the other hand, the most equitable practice available is the one used by CFCAA; the grants open at the time that benefit from the expenditure, either as a direct beneficiary or as a beneficiary of the continued existence of the CAA, are charged with costs when paid.

RECOMMENDATIONS

We recommend that the State:

- either return to the Federal government \$107,098 or work with the Agency to determine what portion of the \$107,098 was allocable to the Recovery Act grant,

RESPONSE: CFCAA does not concur as the costs were allowable and allocable.

- return to the Federal Government unallowable costs totaling \$53,310,

RESPONSE: CFCAA does not concur, except for the \$4,867.23 amount cited above.

- ensure that the Agency uses a method for allocating costs to Federal awards that is compliant with 2 CFR pt. 230, and

RESPONSE: CFCAA does not concur as CFCAA complies with OMB Circular A-122 which is *THE* appropriate governing document cited in its grants.

- ensure that the Agency revises and follows its policies and procedures regarding the adequate documentation of all costs charged under Federal awards and the charging of costs during a grant period.

RESPONSE: CFCAA does not concur as the policies and procedures comply with OMB Circular requirements. In a proactive manner, CFCAA routinely enhances its policies and procedures.

FOOTNOTES FROM ORIGINAL DRAFT REPORT

¹ During our audit period, the Florida Department of Community Affairs oversaw the CSBG program. However, the CSBG program is now administered by the Department of Economic Opportunity.

² 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.

³ We excluded these particular items from our calculations of the allocation percentages used in September 2009 and in April and September 2010.

⁴ In response to our inquiries, the Agency explained that the lodging costs were incurred for senior management and board members to attend a training conference regarding the legal aspects of grants and increased oversight of the Recovery Act. However, according to the conference agenda, most sessions were geared toward general operations of a CAA, not specific CSBG program requirements.

⁵ The \$2,065 is the net amount of \$2,301 in overcharges and \$236 in undercharges.

⁶ Agency officials stated that these hours were charged in error.

Rick Scott
GOVERNOR



Darrick D. McGhee
INTERIM EXECUTIVE DIRECTOR

FLORIDA DEPARTMENT of
ECONOMIC OPPORTUNITY

December 31, 2012

Ms. Lori 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-04-11-01008

Dear Ms. Pilcher:

This correspondence is the Florida Department of Economic Opportunity (Department) response to your letter dated October 19, 2012. The Department appreciates the opportunity to respond to the draft report entitled *Central Florida Community Action Agency, Inc., Did Not Always Charge Allowable Costs to the Community Services Block Grant – Recovery Act Program*.

The following are the Departments statements of concurrence or non-concurrence to the Findings and Recommendations in the above referenced draft audit response.

FINDINGS AND RECOMMENDATIONS

Of the \$325,576 in CSBG costs that the State claimed on behalf of the Agency that we reviewed, \$165,172 was allowable under the terms of the grant and applicable Federal regulations. However, the State claimed \$107,173 in costs (or 33 percent of reviewed expenditures) that may not have been allocable to the Recovery Act grant and thus were potentially unallowable. The State also claimed \$53,231 in unallowable costs (or 16 percent of reviewed expenditures) on behalf of the Agency, including:

- \$49,294 in costs that were inadequately documented and
- \$3,937 in costs that were incurred outside of the grant period

The potentially unallowable costs the State claimed on behalf of the Agency occurred because the Agency's method for allocating costs to Federal awards was not compliant with 2 CFR pt. 230. The unallowable costs the State claimed on behalf of the Agency occurred

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because the Agency did not follow its own policies and procedures for providing purchase requisitions, receipts, and other necessary supporting documentation for accounts payable transactions and travel-related expenditures. Furthermore, the Agency's policies and procedures were inadequate to ensure that the Agency charged to the grant only those costs properly incurred during the Recovery Act budget period.

Because the Agency charged unallowable costs to the Recovery Act grant, these funds could not be used to reduce poverty, revitalize low income communities, and empower individuals to become fully self-sufficient.

RECOMMENDATIONS

We recommend that the State:

- return to the Federal government \$107,173 or work with the Agency to determine what portion of the \$107,173 was allocable to the Recovery Act grant,
- return to the Federal Government unallowable costs totaling \$53,231,
- ensure that the Agency uses a method for allocating costs to Federal awards that is compliant with 2 CFR pt. 230, and
- ensure that the Agency revises and follows its policies and procedures regarding the adequate documentation of all costs charged under Federal awards and the charging of costs during a grant period.

Response:

The Department has worked with the Central Florida Community Action Agency, Inc. (CFCAA), on the above findings and recommendations. In doing so, the Department and the CSBG program manager required the CFCAA to locate all proper documentation for the questioned allocable portion of \$107,173 and the proper documentation totaling \$53,231.00 which is stated as unallowable. The CFCAA provided documentation to the Department November 13, 2012 and is included as back up to this response. The documentation should verify not only the dollars spent; but, justify what cost and cost category they represent.

The Department does concur that \$4,867.23 of the un-allocable expenses are not properly charged to the Recovery Act grant. However, the agency has provided 5 batches of data to provide supporting documentation for all other expenses and costs that are in question. Batches 1 through 4 address costs that are identified on the enclosed spreadsheets labeled "Potentially Unallowable". Batch 5 addresses the items listed on the spreadsheet as "Unallowable – Non-salary" and "Unallowable – Salary". If the spreadsheet needs to be submitted electronically, we will do so upon your request.

Lori Pilcher, Regional Inspector General for Audit Services

December 31, 2012

Page 3 of 3

The Department worked with the Agency to ascertain the Cost Allocation Plan and the methodology used for the allocation of direct and indirect costs during the CSBG-ARRA grant period. The Cost Allocation Plan is enclosed. The methodology used by the Agency for charging direct costs incurred in the performance of a specific requirement of a grant was charged to that grant. Indirect costs incurred are allocated using the general methodology of the portion of the costs or expenses as they apply to grant charged only. A more detailed explanation from the Agency is also enclosed.

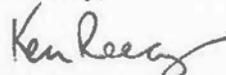
A copy of the Department approved CSBG-ARRA Attachment A-1 Budget Summary and the 2009-2010 CSBG-ARRA Amended Attachment L – Scope of Work/Workplan is provided by the Department from the agency's CSBG-ARRA approved contract is enclosed. These two documents should be used to justify the questioned expenditures by the CFCAA by tracking the costs to the applicable line item.

The Department will be visiting the CFCAA within the year of 2013 to monitor and ensure that the agency improves its policies and procedures for compliance regarding the adequate documentation of all costs charged under Federal awards. The monitors will also ensure during this monitoring period that the Agency understands allocating costs to Federal awards that is compliant with 2 CFR pt. 230.

This executed letter is being sent today through your secured system. Due to the amount of additional documentation provided by CFCAA and the Department, all hard copies of the documentation will be forthcoming along with the original letter via priority mail, return receipt service.

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.

Sincerely,



Ken Reecy, Assistant Director
Division of Community Development

Enclosure

KR/pl