



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VI
1100 COMMERCE STREET, ROOM 632
DALLAS, TX 75242

March 22, 2012

Report Number: A-06-10-00074

Mr. Vaughn Clark, Director
Oklahoma Department of Commerce
Community Development Division
900 North Stiles Avenue
Oklahoma City, OK 73104

Dear Mr. Clark:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Oklahoma's Monitoring of CSBG Funds Provided to Community Action Agencies Under the American Recovery and Reinvestment Act*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (214) 767-8414 or contact Ms. Sylvie Witten, Audit Manager, at (512) 339-3071 or through email at Sylvie.Witten@oig.hhs.gov. Please refer to report number A-06-10-00074 in all correspondence.

Sincerely,

/Patricia Wheeler/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jeannie Chaffin
Director, Office of Community Services
Administration for Children and Families
6th Floor, Aerospace Building
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**OKLAHOMA'S MONITORING OF CSBG
FUNDS PROVIDED TO COMMUNITY
ACTION AGENCIES UNDER THE
AMERICAN RECOVERY AND
REINVESTMENT ACT**



Daniel R. Levinson
Inspector General

March 2012
A-06-10-00074

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Community Services Block Grant (CSBG) program was reauthorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998 (the CSBG Act), P. L. No. 105-285, to provide funds to alleviate the causes and conditions of poverty in communities. The CSBG funds a State-administered network of more than 1,100 local agencies that create, coordinate, and deliver programs and services to low-income Americans. States received \$681 million in 2009 and \$680 million in 2010 through the CSBG program.

The American Recovery and Reinvestment Act of 2009 (the Recovery Act), P.L. No. 111-5, provided \$1 billion in additional CSBG funds for fiscal years (FY) 2009 and 2010.

In Oklahoma, the Oklahoma Department of Commerce (the State agency) administers the CSBG program. The State agency received an approximate total of \$16.6 million in regular CSBG funds for 2009 and 2010. The Recovery Act provided Oklahoma approximately \$12 million in additional CSBG funds for FYs 2009 and 2010 for its 20 Community Action Agencies (CAA).

Pursuant to section 678(B) of the CSBG Act, the State agency must monitor CAAs by conducting full onsite reviews at least once during each 3-year period. State agencies conduct these reviews to determine whether CAAs are meeting the State's performance goals, administrative standards, and financial and other requirements.

After the Recovery Act was implemented, the Administration for Children and Families (ACF) issued guidance (Information Memorandum No. 112) on August 18, 2009, that requires State agencies to review risk assessments CAAs conduct on themselves and provide the risk assessments along with the State agencies' comments to the Office of Community Services.

Office of Management and Budget Memorandum M-09-21 says that prime recipients (States) are ultimately responsible for reporting all of the data required by section 1512 of the Recovery Act. States are required to:

- implement internal control measures as appropriate to ensure that accurate and complete information is reported and
- perform data quality reviews for material omissions and/or significant reporting errors, make appropriate and timely corrections to its data, and work with subrecipients to address data quality issues.

OBJECTIVE

Our objective was to determine whether the State agency established adequate internal controls for assessing and monitoring CSBG funds provided to CAAs under the Recovery Act.

SUMMARY OF FINDINGS

The State agency did not establish adequate internal controls for assessing and monitoring CSBG funds provided to CAAs under the Recovery Act. Specifically, the State agency did not:

- have policies or procedures in place to effectively monitor CAAs administering CSBG funds provided by the Recovery Act and
- accurately report Recovery Act information.

Without adequate internal controls, Recovery Act and CSBG program funds may be at risk for fraud, waste, and abuse by CAAs.

RECOMMENDATIONS

We recommend that the State agency:

- develop and implement adequate written policies and procedures to effectively monitor CAAs administering CSBG funds and
- ensure that the CSBG funds provided by the Recovery Act were reported accurately on the Federal and State Recovery Act Web sites.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency concurred with one finding, partially concurred with two findings, disagreed with two findings, and neither agreed nor disagreed with one finding. The State agency described corrective actions it had taken to address the findings with which it concurred or partially concurred. The State agency's comments are included in their entirety as the Appendix. Nothing in the State agency's comments caused us to change our findings or recommendations.

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INTRODUCTION

BACKGROUND

Federal Community Services Block Grant Program

The Community Services Block Grant (CSBG) program was reauthorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998 (the CSBG Act), P.L. No. 105-285, to provide funds to alleviate the causes and conditions of poverty in communities. The CSBG funds a State-administered network of more than 1,100 local agencies that create, coordinate, and deliver programs and services to low-income Americans. States received \$681 million in 2009 and \$680 million in 2010 through the CSBG program.

The American Recovery and Reinvestment Act of 2009 (the Recovery Act), P.L. No. 111-5, provided \$1 billion in additional CSBG funds for fiscal years (FY) 2009 and 2010. As with annually appropriated CSBG funds, Recovery Act funds could have been used to reduce poverty, to revitalize low-income communities, and to help low-income families in rural and urban areas become self-sufficient.

Office of Community Services

The U.S. Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Community Services (OCS), is responsible for overseeing the CSBG program. States and territories submit applications annually or biannually to OCS that include (1) a statement of goals and objectives, (2) information on the specific types of activities to be supported, (3) areas and categories of individuals to be served, and (4) criteria and methods for distributing funds to local agencies.

Community Services Block Grant Program in Oklahoma

In Oklahoma, the Oklahoma Department of Commerce (the State agency) administers the CSBG program. The State agency received an approximate total of \$16.6 million in regular CSBG funds for 2009 and 2010. The Recovery Act provided the State with approximately \$12 million in additional CSBG funds for FYs 2009 and 2010 for its 20 Community Action Agencies (CAA). Of the \$28.6 million, the State provided approximately \$26.8 million to the CAAs. The State retained approximately \$1.8 million to monitor the CAAs for compliance with applicable Federal requirements and achievement of performance goals, as required by 45 CFR § 92.40(a).

The CAAs provide Oklahoma residents with services related to employment, income management, housing assistance, nutrition, and health. The CAAs use the majority of CSBG funding for planning, coordination, and administrative support for activities that are difficult to fund through other program grants.

Office of Inspector General Audits

On December 31, 2009, we issued a memorandum¹ to ACF alerting it that CSBG program funds made available under the Recovery Act might be at risk for fraud, waste, and abuse at certain CAAs that State agencies designated as “vulnerable” or “in crisis.” We reviewed ACF records in November 2009 and identified 20 CAAs in 16 States that the States had reported as vulnerable or in crisis as of October 30, 2009. These 20 CAAs were scheduled to receive a total of \$44.9 million in Recovery Act funds.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency established adequate internal controls for assessing and monitoring CSBG funds provided to CAAs under the Recovery Act.

Scope

Our review covered the period April 1, 2009, through March 31, 2010. We reviewed and assessed only those State agency internal controls considered necessary to achieve our audit objective.

We performed our fieldwork at the State agency in Oklahoma City, Oklahoma, during May and August 2010.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and policies;
- reviewed the State’s application and plan for Recovery Act funds;
- reviewed the State agency’s files related to the full onsite reviews of all the CAAs;
- reviewed the CAAs’ annual audit reports for FYs ended 2007 through 2009;
- reviewed risk assessments from October 2009 for all the CAAs; and
- discussed our preliminary findings with the State agency.

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

¹ Office of Inspector General, *Alert: Community Service Block Grant Recovery Act Funding for Vulnerable and In-Crisis Community Action Agencies* (A-01-09-02511). Available online at: <http://oig.hhs.gov/oas/reports/region1/10902511.pdf>.

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

The State agency did not establish adequate internal controls for assessing and monitoring CSBG funds provided to CAAs under the Recovery Act. Specifically, the State agency did not:

- have policies or procedures in place to effectively monitor CAAs administering CSBG funds provided by the Recovery Act and
- accurately report Recovery Act information.

Without adequate internal controls, Recovery Act and CSBG program funds may be at risk for fraud, waste, and abuse by CAAs.

INADEQUATE MONITORING POLICIES AND PROCEDURES

Section 678(B) of the CSBG Act requires States to monitor local agencies to determine whether they meet performance goals, administrative standards, and financial management and other State requirements. In addition, ACF Information Memorandum No. 112 requires shared accountability and responsibility for internal controls at all organization levels in a partnership among Federal, State, and local organizations. Internal controls help managers achieve desired results through effective stewardship of public resources. Such interrelated controls comprise the plans, methods, and procedures used to meet missions, goals, and objectives and support performance-based management. In addition, internal controls should provide reasonable assurance that an organization achieves its objectives of (1) effective and efficient operations, (2) reliable reporting, and (3) compliance with applicable laws and regulations.

The State agency did not have adequate policies and procedures in place to effectively monitor the CAAs' administration of the CSBG funds provided by the Recovery Act. Specifically, the State agency did not (1) adequately document its review of the CAAs' determination of client eligibility, (2) approve budget modification requests in a consistent manner, (3) monitor all of its CAAs annually as required by the State plan, and (4) provide monitoring reports, which included corrective action plans, to the CAAs in a timely manner.

Client Eligibility

The Recovery Act allowed States and the CAAs that administer the CSBG program at the local level to increase individual income eligibility requirements for program services provided during FYs 2009 and 2010 up to 200 percent of the official poverty guidelines set by HHS. This eligibility adjustment reflected an increase from the 125-percent rate provided in section 673(2) of the CSBG Act and applied to all CSBG services that States and CAAs furnished during FYs 2009 and 2010, including those provided through other CSBG appropriations.

As part of its monitoring of the CSBG program, the State agency did not adequately document its review of the CAAs' determination of client eligibility. We could not determine from the State agency's monitoring reviews whether the clients it reviewed for eligibility received services from the CSBG programs and whether the State agreed with the CAAs' determination of eligibility. As such, we could not determine whether the State agency ensured that CAAs provided services to eligible clients.

Approval of Budget Modifications

The State agency required CAAs to submit budget modification requests to program monitors. However, the program monitors did not have written procedures for approving modifications. Program monitors reviewed modification narratives and verified the updated calculations. Program monitors told us that sometimes they obtained modification approvals from the program director, either verbally or by email.

A review of files for selected CAAs showed that many budget modification requests did not have narratives or supporting documentation explaining the purpose of the modifications. For example, the State agency approved salary increases for three employees at one CAA without adequate justification. The total budgeted cost of the increases, from June 2009 through September 2010, was \$23,753, based on 10- to 20-percent increases for each employee. However, job descriptions for the three employees—the executive secretary, the substance abuse director, and a case management coordinator—did not cite Recovery Act duties or other additional duties that would have justified salary increases.

Timeliness of Monitoring

Pursuant to Oklahoma's FY 2009-2010 Community Services Block Grant/American Recovery and Reinvestment Act State Plan (State plan), the State agency "... performs monitoring and evaluation activities of all programs and services administered by the agency [CAA] and supported by CSBG funds, once a year."

The State agency did not monitor all of its CAAs annually as required by the State plan. At the time of our site visit in May 2010, the State agency had not performed a monitoring review for 1 of its 20 CAAs for approximately 20 months.

Monitoring Reports and Corrective Action Plans

Pursuant to *The Liaison Manual* (the Manual): "Per the CET [Citizens Empowerment Team] policy, the official monitoring report must be issued within 30 days from the exit interview." The Manual also states: "All corrective actions must be at least addressed with a corrective action or a timeline for a corrective action within 30 days of the receipt of the report. Once all corrective actions have been accepted and other information has been submitted and approved, the monitoring can be closed."

The State agency did not consistently provide CAAs with monitoring reports, which included corrective action plans, within 30 days of the date of the monitoring review. For three

monitoring reviews completed in 2009, the State agency issued monitoring reports with corrective action plans from 4 to 8 months after the monitoring reviews occurred. If the State agency does not issue monitoring reports in a timely manner, the CAAs can not address the issues documented on the corrective action plans in a timely manner; thus, Recovery Act and CSBG program funds could be put at risk for fraud, waste, and abuse.

DATA QUALITY AND REPORTING

Section 1512 of the Recovery Act requires recipients of certain Recovery Act funds to report to the applicable Federal agency not later than 10 days after the end of each calendar quarter (1) the total amount of Recovery Act funds received and the amount that was expended or obligated; (2) a detailed list of all projects for which Recovery Act funds were expended or obligated, including an estimate of jobs created and retained; and (3) detailed information on payments to subrecipients and vendors.

OMB Memorandum M-09-21 says that prime recipients—States—are ultimately responsible for reporting all of the data required by section 1512 of the Recovery Act. It requires States to:

- implement internal control measures as appropriate to ensure accurate and complete information and
- perform data quality reviews for material omissions and/or significant reporting errors, make appropriate and timely corrections to State data, and work with subrecipients to address data quality issues.

Disbursement Data

For the quarter January 1 through March 31, 2010, the State agency reported inaccurate CSBG Recovery Act disbursement information on the Federal Recovery.gov Web site and the State of Oklahoma's Recovery & Reinvestment Web site and incorrectly included CSBG Recovery Act award data for three Community Development Block Grant (CDBG) recipients. Specifically, the State agency overstated the amount of CSBG disbursements by \$113,997 and reported \$2,187,835 in Recovery Act awards for three CDBG program recipients under the CSBG program. Of the \$113,997 in overstated disbursements:

- \$73,300 was for payments made to three CAAs after March 31, 2010,
- \$24,338 was for reported expenses rather than disbursements, and
- \$16,359 was for net overstated and understated disbursements for six CAAs.

The State agency did not have adequate procedures to ensure that data reported on the Federal Recovery.gov Web site and the State of Oklahoma's Recovery & Reinvestment Web site were accurate.

RECOMMENDATIONS

We recommend that the State agency:

- develop and implement adequate written policies and procedures to effectively monitor CAAs administering CSBG funds and
- ensure that the CSBG funds provided by the Recovery Act were reported accurately on the Federal and State Recovery Act Web sites.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency concurred with one finding, partially concurred with two findings, disagreed with two findings, and neither agreed nor disagreed with one finding. The State agency described corrective actions it had taken to address the findings with which it concurred or partially concurred. The State agency's comments are summarized below and included in their entirety as the Appendix. Nothing in the State agency's comments caused us to change our findings or recommendations.

Inadequate Monitoring Policies and Procedures

State Agency Comments

The State agency disagreed with our finding, stating that it had provided numerous documents for us to review (e.g., manuals and reports).

Office of Inspector General Response

We are not disputing the State agency's statement that it provided us the documentation listed in its response. However, the documentation does not show that the State agency had adequate policies and procedures for effectively monitoring the CAAs' administration of CSBG funds provided by the Recovery Act.

Client Eligibility

State Agency Comments

The State agency disagreed with our finding, stating that it had documentation of client eligibility testing and that client eligibility is tested for all funded programs as part of the monitoring review.

Office of Inspector General Response

We are not disputing the State agency's statement that client eligibility is tested as part of its monitoring review of CAAs. However, the State agency did not adequately document the

CAAs' determination of client eligibility. Thus, we could not determine whether the State agency ensured that CAAs provided services to eligible clients or whether the State agency approved the CAAs' process for determining eligibility.

Approval of Budget Modifications

State Agency Comments

The State agency partially concurred with our finding. The State agency disagreed with our finding that it did not have written procedures for processing budget modifications. The State agency agreed that it may have failed to document the discussions between the CAAs and their program monitors. However, the State agency said that it did not process the budget modifications without a justification.

Office of Inspector General Response

At the time of our review, we did not identify nor were we provided written procedures used for processing budget modifications. The program monitors said that they did not have written procedures for approving budget modifications. Additionally, we disagree that the CAAs' budget modifications were not processed without a justification. During our review of master CAA files located in the State agency's accounting department for selected CAAs, we identified several budget modification requests that did not have the required narratives or supporting documentation justifying the modifications.

Timeliness of Monitoring

State Agency Comments

The State agency concurred with our finding.

Monitoring Reports and Corrective Action Plans

State Agency Comments

The State agency partially concurred with our findings. For monitoring reviews completed in 2009, the State agency agreed that it had issued the monitoring reports outside the Manual's 30-day requirement but that there were only two instances.

Office of Inspector General Response

Based on the monitoring reports the State agency provided to us at the time of our review, we identified three instances involving 2009 monitoring reviews in which the State agency had issued monitoring reports to CAAs outside the Manual's 30-day requirement.

Data Quality and Reporting

State Agency Comments

The State agency said that it neither agreed nor disagreed with the finding. The State agency stated that it had complied with all section 1512 reporting requirements and with OMB Memorandum M-09-21. The State agency said that it reports information to another agency to be included on the Federal Recovery.gov Web site and the State of Oklahoma's Recovery & Reinvestment Web site. The State agency said that it believes that its data was reported accurately but that it can not control what the Web sites report.

Office of Inspector General Response

The State agency's contract files, which included the contract award and date, monthly expense reports provided by the CAAs, and claim documentation, did not support the disbursement data reported on the Federal Recovery.gov Web site and the State of Oklahoma's Recovery & Reinvestment Web site. In addition, the director of programs in the State agency's Operations Group agreed with us that the State agency had reported inaccurate CSBG Recovery Act disbursement information on the Web sites.

Pursuant to OMB Memorandum M-09-21, the State agency is ultimately responsible for reporting all of the data required by section 1512 of the Recovery Act. It requires the State agency to:

- implement internal control measures as appropriate to ensure accurate and complete information and
- perform data quality reviews for material omissions and/or significant reporting errors, make appropriate and timely corrections to State data, and work with subrecipients to address data quality issues.

The State agency did not have internal controls in place, as required by OMB Memorandum M-09-21, to ensure that the data reported on the Federal Recovery.gov Web site and the State of Oklahoma's Recovery & Reinvestment Web site were accurate.

APPENDIX

APPENDIX: STATE AGENCY COMMENTS



January 19, 2012

Patricia Wheeler, Regional Inspector General for Audit Services
Office of Inspector General
Office of Audit Services, Region VI
1100 Commerce Street, Room 632
Dallas, TX 75242

Re: Report Number: A-06-10-00074

Dear Ms. Wheeler:

The Division of Community Development of the Oklahoma Department of Commerce offers the attached comments with regard to Report Number: A-06-10-00074 issued by the HHS Inspector General's Office.

Sincerely,

A handwritten signature in blue ink, appearing to read "Vaughn Clark".

Vaughn Clark, Director
Community Development

Enclosure

RESPONSE TO FINDINGS AND RECOMMENDATIONS
HHS OIG Report Number: A-06-10-00074

The Oklahoma Department of Commerce disagrees significantly with several of the findings. And while, the Department appreciates the recommendations, it believes it is important to point out that the HHS IG's investigation was conducted over 16 months ago and many of the points made by the HHS IG's office have been implemented or are not relevant to the CSBG ARRA program which ended in September of 2010.

Finding: The State agency did not have established internal controls for assessing and monitoring CSBG funds provided to CAAs under the Recovery Act.

Response: We do not concur. The Oklahoma Department of Commerce does indeed have policies and procedures in place to administer the Community Services Block Grant (CSBG) as well as all federal and state programs for which it has responsibility. The Inspector General's office was provided the following documents for review:

- CAA Implementation Manual
- CET Policies and Procedures Manual
- Liaison Manual
- ARRA Monitoring Tool
- CAA Confax books for each CAA
- The Oklahoma Department of Commerce Administrative and Financial Procedures
- CAA monitoring reports
- CAA ARRA Assessment reports

Finding: Inadequate Monitoring Policies and Procedures
Client Eligibility

Response: We do not concur. Client eligibility is tested for both ODOC and non-ODOC funded programs as part of the monitoring tool. CSBG funds are mainly used by CAAs to support programs provided by the agency. In the review of files to respond to this finding documentation of the testing of client eligibility did exist. Any occurrence where an agency provided services to a client that did not meet eligibility requirements would be addressed in that agency's monitoring report.

Finding: Inadequate Monitoring Policies and Procedures
Approval of Budget Modifications

Response: We partially concur. The ODOC does have written procedures as well as standard forms used for processing budget revisions. As the finding states, program monitors told you that they sometimes obtained modification approvals

from the program director, either verbally or by e-mail. This is correct however it is not required but is an option sometimes exercised by the monitor if they decide they want an additional review or approval of the modification.

Some revisions were submitted without narratives. Program monitors have very close relationships with their assigned agencies. Most often an agency discusses the need for a revision with their monitor prior to submitting a request so it is often that the monitor already knows of the modification justification when the request is received. It is agreed that there might have been a failure to document these discussions however modifications were not processed without a justification. Even though staff continues to discuss modification requests with their agencies they are now ensuring that narratives and supporting documentation are provided.

Finding: Inadequate Monitoring Policies and Procedures
Timeliness of Monitoring

Response: We concur. The State CSBG office agrees that one of the 20 CAAs was not monitored within a twelve month time frame as indicated in the State Plan. However, the CAA in question was monitored well within the Federal 3 year requirement. Additionally, the CSBG State Plan has now been amended to require that monitoring only be performed within a 3 year period rather than annually.

Finding: Inadequate Monitoring Policies and Procedures
Monitoring Reports and Corrective Action Plans

Response: We partially concur. While the finding states that for monitoring reviews completed in 2009 that ODOC issued reports outside of the 30 days pursuant to the Liaison Manual, we have identified two.

One agency was monitored in January of 2009. Shortly thereafter the Executive Director left the agency. We kept the monitoring open through the transition of hiring a new Executive Director and because of financial and management/leadership transitional issues we could not complete the monitoring. We monitored again in January of 2010 and have been working closely with the agency. Their monitoring was closed in 2011.

In the case of the second agency, the program monitor was let go by ODOC after the completing the monitoring and prior to issuing the report. A report was issued as soon as ODOC became aware that one had not been issued.

No other instances of reports being issued late have been identified for 2009, 2010 or 2011.

Finding: Data Quality and Reporting
Disbursement Data

Response: We neither concur nor do not concur. The ODOC has complied with all 1512 reporting requirements in a timely fashion and believe that we have also complied with OMB Memorandum M-09-21 as well. ODOC reports information to another agency to be included on the FederalRecovery.gov and the State of Oklahoma's Recovery & Reinvestment web-sites. We believe that our data was reported accurately however what is actually reported on these web-sites is not within the control of ODOC.

Response to
Recommendations: While ODOC policies, procedures and tools are always reviewed and updated to stay up with changes from our Federal partners as well as to provide for continuous improvement and efficiency, the timeliness of this report does not provide for changes to be made relevant to the Recovery Act.