



May 16, 2011

TO: Yolanda J. Butler, Ph.D.
Acting Director
Office of Community Services
Administration for Children and Families

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at Central Oklahoma Community Action
Agency, Inc. (A-06-10-00088)

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

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

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. We look forward to receiving your final management decision within 6 months. Please refer to report number A-06-10-00088 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT CENTRAL OKLAHOMA
COMMUNITY ACTION AGENCY, INC.**



Daniel R. Levinson
Inspector General

May 2011
A-06-10-00088

Office of Inspector General

<http://oig.hhs.gov>

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

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

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

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Notices

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

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998 (the CSBG Act), P.L. No. 105-285, to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services, administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (CAA) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

Under the American Recovery and Reinvestment Act of 2009 (the Recovery Act), P.L. No. 111-5, enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program to help States alleviate the causes and conditions of poverty in communities. States distribute CSBG Recovery Act funds to CAAs using the existing statutory formula.

The Oklahoma Department of Commerce (the State agency) acts as the lead agency in carrying out State activities for the CSBG program. The State agency is responsible for approving the State's CAA Recovery Act grant applications and monitoring the CAAs for compliance with program regulations. ACF awarded the State agency an additional \$11,965,297 in Recovery Act funds for the State of Oklahoma's CSBG program.

The Central Oklahoma Community Action Agency (COCAA), a private, nonprofit organization, provides services to low-income individuals in six counties in central Oklahoma. During fiscal year 2009, the State agency awarded COCAA \$873,168 in CSBG funds and \$1,312,399 in Recovery Act grant funds. During the same period, COCAA expended total Federal grant awards of \$1,657,391.

OBJECTIVE

Our objective was to assess COCAA's financial viability, capacity to manage and account for Federal funds, and ability to operate the CSBG program in accordance with Federal regulations.

SUMMARY OF FINDINGS

COCAA has the ability to manage and account for Federal funds and is capable of operating a CSBG program in accordance with Federal regulations. However, COCAA has weaknesses related to its accounting system, cost allocation plan, cost shifting, safeguarding of Federal assets, board of directors composition, financial management systems, and policies and procedures.

RECOMMENDATIONS

In determining whether COCAA is appropriately managing and accounting for Recovery Act grant funding and whether COCAA has the ability to operate a CSBG program in accordance with Federal regulations, ACF should consider the information presented in this report. In addition, COCAA should work with the State agency to address the weaknesses identified.

CENTRAL OKLAHOMA COMMUNITY ACTION AGENCY COMMENTS

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

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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 (the CSBG Act), P.L. No. 105-285, to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services, administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (CAA) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

Under the American Recovery and Reinvestment Act of 2009 (the Recovery Act), P.L. No. 111-5, enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program to help States alleviate the causes and conditions of poverty in communities. States distribute CSBG Recovery Act funds to CAAs using the existing statutory formula.

Oklahoma Department of Commerce

The Oklahoma Department of Commerce (the State agency) acts as the lead agency in carrying out State activities for the CSBG program. The State agency is responsible for approving the State's CAA Recovery Act grant applications and monitoring the CAAs for compliance with program regulations. ACF awarded the State agency an additional \$11,965,297 in Recovery Act funds for the State of Oklahoma's CSBG program.

Central Oklahoma Community Action Agency

The Central Oklahoma Community Action Agency (COCAA), a private, nonprofit organization, provides services to low-income individuals in six counties in central Oklahoma. During fiscal year 2009, the State agency awarded COCAA \$873,168 in CSBG funds and \$1,312,399 in Recovery Act grant funds. During the same period, COCAA expended total Federal grant awards of \$1,657,391.

Requirements for Federal Grantees

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete reporting of grant-related financial data, effective control over grant funds, and allocation of costs to all benefitting programs. In addition, grantees must establish written procurement procedures. Grantees are also required to maintain inventory control systems and take periodic physical inventory of grant-related equipment. In addition, pursuant to 45 CFR § 74.27, the allowability of costs incurred by nonprofit organizations is determined in accordance with the

provisions of Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess COCAA's financial viability, capacity to manage and account for Federal funds, and ability to operate the CSBG program in accordance with Federal regulations.

Scope

We conducted a limited review of COCAA's financial viability, financial management systems, and related policies and procedures. Therefore, we did not perform an overall assessment of COCAA's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was April 1, 2006, through May 31, 2010.

We performed our fieldwork at COCAA's administrative office in Shawnee, Oklahoma, during June and July 2010.

Methodology

To accomplish our objective, we:

- confirmed that COCAA is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed COCAA's application for, intended use of, and use of Recovery Act grant awards;
- reviewed the findings related to the most recent State agency review of COCAA;
- reviewed COCAA's policies and procedures related to the CSBG program;
- reviewed COCAA's bylaws, the minutes from its board of directors meetings, the composition of its board, and its organizational chart;
- performed audit steps to assess the adequacy of COCAA's current financial systems; and
- reviewed COCAA's audited financial statements and supporting documentation for the period April 1, 2006, through March 31, 2009.

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

FINDINGS AND RECOMMENDATIONS

COCAA has the ability to manage and account for Federal funds and is capable of operating a CSBG program in accordance with Federal regulations. However, COCAA has weaknesses related to its accounting system, cost allocation plan, cost shifting, safeguarding of Federal assets, board of directors composition, financial management systems, and policies and procedures.

ACCOUNTING SYSTEM

Pursuant to 45 CFR § 74.21, grantees must maintain financial systems that provide for accurate and complete reporting of grant-related financial data. Grantees must provide effective control over and accountability of all funds, property, and other assets to adequately safeguard all assets.

COCAA did not promptly record financial transactions. For example, \$17,880 in adjustments were included in the fiscal year 2009 audited financial statements ending March 31, 2009, but were not recorded in the general ledger until June 30, 2009.

The State agency's *Contractor Implementation Manual* specifies that the individual performing bank reconciliations should initial and date the reconciliation when complete. However, the bank reconciliation for May 31, 2010, was not signed or dated by the preparer.

COCAA's written check-signing policy states that all checks require two signatures; however, during our review of the bank reconciliation, we observed a check with only one of the two required signatures.

COST ALLOCATION PLAN

OMB Circular A-122, section (4)(a), states: "A cost is allocable to a particular cost objective, such as a grant, project, service or other activity, in accordance with the relative benefits received."

COCAA's cost allocation plan states that all programs with zero salaries will be charged administrative costs at the rate of 3 percent of COCAA's operating budget for the life of the programs. COCAA did not follow its cost allocation plan. Specifically, COCAA did not charge the Federal Emergency Management Agency Grant and the Community Development Block Grant administrative costs at the rate of 3 percent of the operating budget for the month of March 2010 even though these programs had zero salaries.

COST SHIFTING

OMB Circular A-122, section (4)(b), states: “Any cost allocation to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.”

As directed by the State agency, COCAA created a general ledger account named “Community Services Block Grant (CSBG) CoFund” to preclude charging administrative costs to the Recovery Act CSBG program. The State said that it did so because it wanted to avoid the appearance that regular CSBG funds were inappropriately charged to the Recovery Act CSBG program. As a result, this caused the CSBG Recovery Act expenditures to be understated by \$46,138.

SAFEGUARDING OF FEDERAL ASSETS

Pursuant to 45 CFR § 74.22(i)(2), grantees are required to deposit and maintain advances of Federal funds in insured accounts whenever possible. Federal Deposit Insurance Corporation (FDIC) policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to \$250,000 at a single bank.

COCAA exceeded FDIC’s \$250,000 insurance limitation in fiscal year 2008 by \$90,259.

COMPOSITION OF THE BOARD OF DIRECTORS

Section 676B of the CSBG Act requires that all CSBG agencies administer the CSBG program through a tripartite board of directors that fully participates in the development, planning, implementation, and evaluation of the programs that serve low-income communities. The board should be composed of one-third each of (1) elected public officials, (2) representatives of the beneficiaries in areas served by a CSBG, and (3) members of the private sector in areas of business, industry, labor, religion, law enforcement, education, or other major groups and interests in the community served.

Of COCAA’s 12 board positions, 2 private sector positions were vacant.

FINANCIAL MANAGEMENT SYSTEMS

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

COCAA’s *Purchasing Policies and Procedures Manual* specifies that all purchases in excess of \$500 must be approved by the executive director. However, information technology equipment that cost \$3,065 was purchased without the approval of the executive director.

COCAA did not perform an annual physical inventory of all equipment purchased with Federal funds as required by its *Financial Accounting Policies and Procedures Manual*. In addition, COCAA failed to make timely adjustments to the depreciation schedule. For example,

COCAA's accounting firm informed COCAA in 2009 of an omission of assets on its depreciation schedule; however, COCAA failed to make that adjustment until we brought the omission to COCAA's attention in July 2010.

In addition, we found that COCAA did not tag property purchased with Recovery Act funds and did not indicate the condition of the property on its inventory records.

POLICIES AND PROCEDURES

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete reporting of grant-related financial data, effective control over grant funds, and allocation of costs to all benefitting programs.

COCAA lacked written policies and procedures to address whistle blowing and maintaining the FDIC limit with financial institutions.

Additionally, COCAA's *Financial Accounting Policies and Procedures Manual* states that a contracted accounting firm performs many of COCAA's accounting functions, including:

- maintaining the general ledger,
- financial reporting for grants/contracts,
- accounts receivable and billing,
- financial statement preparation,
- bank reconciliations,
- ensuring compliance with governmental financial reporting requirements,
- assisting with the annual audit,
- reconciliation of subledgers, and
- cash management.

The accounting firm listed in the *Financial Accounting Policies and Procedures Manual* has not worked for COCAA since fiscal year 2007. To comply with Federal regulations, COCAA should update its policies and procedures manual.

RECOMMENDATIONS

In determining whether COCAA is appropriately managing and accounting for Recovery Act grant funding, and whether COCAA has the ability to operate a CSBG program in accordance

with Federal regulations, ACF should consider the information presented in this report. In addition, COCAA should work with the State agency to address the weaknesses identified.

CENTRAL OKLAHOMA COMMUNITY ACTION AGENCY COMMENTS

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

APPENDIX

**APPENDIX: CENTRAL OKLAHOMA COMMUNITY ACTION AGENCY
COMMENTS.**



**Central Oklahoma
Community Action Agency**

**Serving Cleveland, Lincoln, Logan, Payne,
Pottawatomie and Seminole Counties**

March 21, 2011

Administration
405.275.6060

**Central
Oklahoma
Transit**
405.273.3000

Weatherization
405.275.6060

Rx for OK
1.800.256.5940

**Family Support
Centers**
Cleveland
405.447.0832
Lincoln
405.567.4591
Logan
405.282.4332
Payne
405.624.2533
Cushing
918.225.7489
Pottawatomie
405.275.6060
Seminole
405.382.1800

**Retired Senior
and Volunteer
Programs**
Pottawatomie
405.275.7910
Cleveland and
McClain
405.701.2132

**Transitional
Housing**
Cleveland
405.447.0832
Mission of
Hope
405.624.3671

**Stillwater
Community
Health Center**
405.743.3171

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

Re: Monitoring Response

Patricia Wheeler:

In response to the monitoring letter dated March 17, 2011, Central Oklahoma Community Action Agency, Inc. makes the following representations:

1. Accounting System

Finding 1:

COCAA did not promptly record financial transactions. For example, \$17,880 in adjustments were included in the fiscal year 2009 audited financial statements ending March 31, 2009, but were not recorded in the general ledger until June 30, 2009.

Response 1:

COCAA recorded the financial transaction upon receipt from the auditor in the period the audit adjustment was received (June 30, 2009). The discrepancy existed because the State Monitors require all Expenditure reports to tie to the General Ledger and will not allow Adjustments to those reports already filed by the receiving Agency. With the March 31, 2010 audit these adjustments were unnecessary and the problem was resolved.

Finding 2:

The State Agency's Contractor Implementation Manual specifies that the individual performing bank reconciliations should initial and date the reconciliation when complete. However, the bank reconciliation for May 31, 2010, was not signed or dated by the preparer.

Response 2:

All Bank Reconciliations are dated electronically by the software, and the preparer has resolved the issue of initialing all Bank Reconciliations when prepared.

Finding 3:

COCAA's written check-signing policy states that all checks require two signatures; however, during our review of the bank reconciliation, we observed a check with only one of the two required signatures.

Response 3:

This was an oversight by both the Accounting Staff and the Bank. Out of thousands of checks the Finance Department was unable to find another check with only one signature. The bank has been notified of the error and the Accounting Staff is making additional effort to avoid this issue in the future.

2. Cost Allocation Plan

Finding 1:

COCAA's cost allocation plan states that all programs with zero salaries will be charged administrative costs at the rate of 3 percent of COCAA's operating budget for the life of the programs. COCAA did not follow its cost allocation plan. Specifically, COCAA did not charge the Federal Emergency Management Agency Grant and the Community Development Block Grant administrative costs at the rate of 3 percent of the operating budget for the month of March 2010 even though these programs had zero salaries.

Response 1:

All Administrative Costs on the Zero salary funds are being charged for the full 12-months of the year to resolve this issue.

3. Cost Shifting

Finding 1:

As directed by the State agency, COCAA created a general ledger account named "Community Services Block Grant (CSBG) Co-Fund" to preclude charging administrative costs to the Recovery Act CSBG program. The State said that it did so because it wanted to avoid the appearance that regular CSBG funds were inappropriately charged to the Recovery Act CSBG program. As a result, this caused the CSBG Recovery Act expenditures to be understated by \$46,138.

Response 1:

As a result of the monitoring by Office of Inspector General (OIG), COCAA requested an amendment from the Oklahoma Department of Commerce (ODOC) to allocate Administrative Expenses to the ARRA CSBG funding. The amendment was granted and the finding has been resolved.

4. Safeguarding of Federal Assets

Finding 1:

COCAA exceeded FDIC's \$250,000 insurance limitation in fiscal year 2008 by \$90,259.

Response 1:

Policies have been written and implemented to address this issue in the future.

5. Composition of the Board of Directors

Finding 1:

Of COCAA's 12 board positions, 2 private sector positions were vacant.

Response 1:

As of this date all Board of Director positions have been filled.

6. Financial Management Systems

Finding 1:

COCAA's Purchasing Policies and Procedures Manual specify that all purchases in excess of \$500 must be approved by the executive director. However, information technology equipment that cost \$3,065 was purchased without the approval of the executive director.

Response 1:

This particular purchase was made under the verbal direction of the executive director. Updated policies and procedures have been implemented to ensure compliance for all future purchases.

Finding 2:

COCAA did not perform an annual physical inventory of all equipment purchased with Federal funds as required by its Financial Accounting Policies and Procedures Manual. In addition, COCAA failed to make timely adjustments to the depreciation schedule. For example, COCAA's accounting firm informed COCAA in 2009 of an omission of assets on its depreciation schedule; however, COCAA failed to make that adjustment until we brought the omission to COCAA's attention in July 2010.

Response 2:

The depreciation schedule has been updated monthly as a result of this finding.

Finding 3:

In addition, we found that COCAA did not tag property purchased with Recovery Act funds and did not indicate the condition of the property on its inventory records.

Response 3:

All COCAA inventory has been tagged documenting the grant in which it was purchased, with a column added to reflect the condition of the inventory at the time of the physical count.

7. Policies and Procedures

Finding 1:

COCAA lacked written policies and procedures to address whistle blowing and maintaining the FDIC limit with financial institutions.

Response 1:

A whistle blowing policy and a policy for maintaining bank balances within the FDIC limit have been written and implemented.

Finding 2:

COCAA's Financial Accounting Policies and Procedures Manual states that a contracted accounting firm performs many of COCAA's accounting functions, including:

- maintaining the general ledger,
- financial reporting for grants/contracts,
- accounts receivable and billing,
- financial statement preparation,
- bank reconciliations,
- ensuring compliance with governmental financial reporting requirements,
- assisting with the annual audit,
- reconciliation of subledgers, and
- cash management.

The accounting firm listed in the Financial Accounting Policies and Procedures Manual has not worked for COCAA since fiscal year 2007. To comply with Federal regulations, COCAA should update its policies and procedures manual.

Response 2:

COCAA's Policies and Procedures manual was updated and approved by the Board of Directors on July 27, 2010.

Submitted by



Clarissa Sydnor
Executive Director