



March 3, 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 San Luis Valley Community Action Agency  
(A-07-10-02766)

The attached final report provides the results of our limited scope review at the San Luis Valley Community Action Agency. 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 the Office of Inspector General (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 (202) 619-1175 or through email at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov). We look forward to receiving your final management decision within 6 months. Please refer to report number A-07-10-02766 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE  
REVIEW AT SAN LUIS VALLEY  
COMMUNITY ACTION AGENCY**



Daniel R. Levinson  
Inspector General

March 2011  
A-07-10-02766

# *Office of Inspector General*

<http://oig.hhs.gov>

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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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# *Notices*

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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, P.L. No. 105-285 (the CSBG Act), 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, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for States to alleviate the causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula.

In Colorado, the Department of Local Affairs (DOLA) acts as the lead agency for purposes of carrying out State activities for the CSBG program. DOLA is responsible for approving the State's grantee Recovery Act grant applications and for monitoring the grantees for compliance with program regulations. In April 2009, DOLA was awarded an additional \$8,684,648 in Recovery Act funds for the State of Colorado's CSBG program.

San Luis Valley Community Action Agency (SLVCAA), a private nonprofit organization, is one of four CAAs in Colorado. The purpose of SLVCAA is to work with employment agencies, school districts, and higher education facilities to provide education, continuing education, and/or employment to residents of the six counties in the San Luis Valley in Colorado. During fiscal year 2009, DOLA awarded SLVCAA \$166,942 in CSBG grant funds and a Recovery Act grant award totaling \$200,428.

### **OBJECTIVE**

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

### **SUMMARY OF FINDINGS**

Based on our assessment, we believe SLVCAA is not financially viable and does not have the capacity to manage and account for Federal funds and to operate its CSBG program in accordance with Federal regulations. Specifically, SLVCAA did not have an independent organizational structure and was not capable of managing its CSBG program. Moreover, SLVCAA's use of a sub-recipient local government body to manage SLVCAA's CSBG program created a conflict of interest.

## **RECOMMENDATION**

In determining whether SLVCAA is appropriately managing and accounting for the Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing SLVCAA's ability to operate the CSBG program in accordance with Federal regulations.

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

In written comments on our draft report, SLVCAA agreed with our findings and described corrective actions that it had implemented or planned to implement. We did not verify the corrective actions.

SLVCAA'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, P.L. No. 105-285 (the CSBG Act), 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 (OCS), 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, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for States to alleviate the causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula.

#### **Colorado Department of Local Affairs**

In Colorado, the Department of Local Affairs (DOLA) acts as the lead agency for purposes of carrying out State activities for the CSBG program. DOLA is responsible for approving the State's grantee Recovery Act grant applications and for monitoring the grantees for compliance with program regulations. In April 2009, DOLA was awarded an additional \$8,684,648 in Recovery Act funds for the State of Colorado's CSBG program.

#### **San Luis Valley Community Action Agency**

San Luis Valley Community Action Agency (SLVCAA), a private nonprofit organization, is one of four CAAs in Colorado. The purpose of SLVCAA is to work with employment agencies, school districts, and higher education facilities to provide education, continuing education, and/or employment to residents of the six counties (Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache) in the San Luis Valley in Colorado. Prior to SLVCAA's establishment in 2009, each of these six counties administered its individual CSBG awards. During fiscal year 2009, DOLA awarded SLVCAA \$166,942 in CSBG grant funds and a Recovery Act grant award totaling \$200,428.

#### **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 to 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 Nonprofit Organizations*. The CSBG Act establishes the CSBG program and sets the requirements and guidelines for CSBG funds.

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

### **Objective**

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

### **Scope**

We conducted a limited review of SLVCAA's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of SLVCAA's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was March 1, 2009, through August 31, 2010.

We performed our fieldwork at the Conejos County administrative office in Conejos, Colorado, during August and September 2010.

### **Methodology**

To accomplish our objective, we:

- confirmed that SLVCAA is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed SLVCAA's application and implementation of the grant awards for the Recovery Act funding;
- reviewed SLVCAA's policies and procedures related to the CSBG program;
- reviewed SLVCAA's minutes from the Executive Board (Board) meetings, composition of the Board, and organizational chart; and
- performed, for reasons discussed below, a limited review of the Conejos County government's accounting system and compliance with CSBG Recovery Act reporting requirements.

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 RECOMMENDATION**

Based on our assessment, we believe SLVCAA is not financially viable and does not have the capacity to manage and account for Federal funds and to operate its CSBG program in accordance with Federal regulations. Specifically, SLVCAA did not have an independent organizational structure and was not capable of managing its CSBG program. Moreover, SLVCAA's use of a sub-recipient local government body to manage SLVCAA's CSBG program created a conflict of interest.

### **LACK OF ORGANIZATIONAL STRUCTURE AND IMPACT ON FINANCIAL VIABILITY**

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.

As of the conclusion of our fieldwork, SLVCAA did not have an independent organizational structure. SLVCAA did not have a staff, financial management systems, policies and procedures, or its own bank accounts. SLVCAA had delegated the responsibility of carrying out the performance of the regular and Recovery Act CSBG grants to the Conejos County government (Conejos County) because, in the absence of staff, systems, and policies and procedures, SLVCAA did not have the capacity to manage the CSBG program. SLVCAA did not incur any administrative costs and, as explained in greater detail below, relied on donated space, personnel, and administrative services provided by Conejos County. With these facts in mind, and because the CSBG program is SLVCAA's sole funding source, we do not believe that SLVCAA has adequate resources to develop and maintain an independent organizational structure and remain financially viable.

Conejos County is also a sub-recipient of SLVCAA's CSBG funds. We performed limited work to determine whether Conejos County properly accounted for SLVCAA's CSBG funds. We found that Conejos County's accounting system adequately identified and supported SLVCAA's CSBG costs.

SLVCAA was incorporated as a private nonprofit organization in March 2009. A tripartite Board of Directors (Board) was established and the Board hired an Executive Director, who worked in space donated by Conejos County. SLVCAA started receiving regular CSBG funds in August 2009, which was before SLVCAA was able to develop an organizational structure, financial management systems, or policies and procedures to manage and account for Federal

funds. The CSBG funds were deposited directly into a Conejos County bank account and commingled with Conejos County's funds.

SLVCAA started receiving Recovery Act CSBG funds in December 2009. The Executive Director, who was responsible for administering the CSBG program, resigned in March 2010, leaving SLVCAA without any staff. Thereafter, SLVCAA fully delegated the responsibility of carrying out the performance of the CSBG grants to Conejos County. The Administrator of Conejos County volunteered to take on the additional duties of administering the Recovery Act CSBG funds. Another Conejos County employee administered the regular CSBG funds. At the start of our fieldwork, the Administrator of Conejos County was also a member of the Board. Consequently, the arrangements SLVCAA made when it delegated administration of the grant to a sub-recipient and a Board member resulted in a conflict of interest.

## **RECOMMENDATION**

In determining whether SLVCAA is appropriately managing and accounting for the Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing SLVCAA's ability to operate the CSBG program in accordance with Federal regulations.

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

In written comments on our draft report, SLVCAA agreed with our findings and described corrective actions that it had implemented or planned to implement. We did not verify the corrective actions.

SLVCAA's comments are included in their entirety as the Appendix.

## **OTHER MATTER**

As stated earlier, SLVCAA delegated administration of the CSBG program to Conejos County. Although Conejos County was not the focus of our review, we performed limited work to assess Conejos County's compliance with CSBG Recovery Act job estimates reporting requirements. We found that Conejos County did not report job estimates based on the Federal guidelines in OMB's December 18, 2009, *Updated Guidance on the American Recovery Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates* memorandum (M-10-08 memorandum). Conejos County was not aware of the Recovery Act reporting requirements and subjectively reported the permanent jobs that would be funded by other sources after the conclusion of Recovery Act funding.

# **APPENDIX**

## APPENDIX: GRANTEE COMMENTS



San Luis Valley Community Action Agency  
P.O. Box 300  
Alamosa, CO 81101  
Phone: 719/589-6099 - Fax: 719/589-6299

January 28, 2011

Patrick J Cogley  
Regional Inspector General for Audit Services  
Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, MO 64106

Report Number: A-07-10-02766

Dear Mr. Cogley:

Enclosed, please find our response to the draft report of the U.S. Department of Health and Human Services, Office of the Inspector General, *Results of Limited Scope Review at San Luis Valley Community Action Agency*.

If you have any questions or comments about this response, please do not hesitate to call me at 719-852-2149 or through email at [roberthagedorn4@gmail.com](mailto:roberthagedorn4@gmail.com).

Sincerely,

A handwritten signature in black ink that reads "Robert Hagedorn". The signature is written in a cursive style.

Robert Hagedorn, President  
SLVCAA

Cc/file

Encl.



San Luis Valley Community Action Agency  
P.O. Box 300  
Alamosa, CO 81101  
Phone: 719/589-6099 - Fax: 719/589-6299

## RESPONSE

We appreciate this opportunity to respond to the January, 2011 *Results of Limited Scope Review at San Luis Valley Community Action Agency* report.

As President of the San Luis Valley Community Action Agency, I must agree with the findings of the OIG. At the time of the audit, SLVCAA was not financially viable and did not have the capacity to manage the CSBG programs. However, we have made great progress since that time and continue to develop as an organization.

SLVCAA was formed in 2009 upon recommendations from the Colorado Department of Local Affairs (DOLA) who was seeking a regional organization to administer and fulfill the federal objectives of the CSBG programs for the six counties of the San Luis Valley (Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache).

The board was able to hire an Executive Director in May, 2009, but only because Conejos County offered to provide in-kind housing, equipment, and accounting systems. As Conejos County had administered CSBG funds for many years and had the experience to mentor and train the Executive Director, the board felt this was a very viable option for our first year of existence.

The Executive Director's first task was to apply for the 501©3 that the organization needed to establish itself, set up the financial management systems, write the policies and procedures, and set up bank accounts so that by the 2010 – 2011 grant cycle, SLVCAA would be a stand-alone organization.

SLVCAA was awarded a Recovery Act grant of \$200,428 in December, 2009. The Directors' time and attention was drawn away from the organizational needs of SLVCAA in an effort to develop programs and relationships that would allow SLVCAA to get the ARRA funding into the community.

The Executive Director resigned in March, 2010. While the Board felt that it was important to continue with the mission and carry out the States' activities for the CSBG programs. Their immediate concern was how to manage the 2010 – 2011 CSBG grant and complete the ARRA grant, due September, 30, 2010.

SLVCAA Board agreed to let the Conejos County Administrator complete the disbursement and reporting of the ARRA funds. The board did not realize that this decision would create a conflict of interest between Conejos County and SLVCAA. As soon as this conflict was pointed out, the Administrator resigned her position on the board.

Realizing the organization was not financially sustainable at this time, the board decided to negotiate with a regional organization to establish an MOU to administer the 2010 – 2011 grant cycle. At that point, they contacted the San Luis Valley Development Resources Group.

A Memorandum of Understanding for the 2010 – 2011 Grant was signed between the SLVCAA and SLVDRG in July, 2010. They were chosen because of their experience and strong background in grants management, longevity of service in the San Luis Valley, and regional scope. As an organization, SLVDRG administers the Department of Commerce, EDA Development District including an annual EDA Planning Grant, EDA Revolving Loan Funds, CDBG Business Loan Funds through the State of Colorado, Colorado Enterprise Zone administration, and Colorado DoLA Mineral and Energy Impact Technical Assistance Grants.

The board realizes that they will not be self-sustainable for several years. They have made the decision to continue to contract with the SLVDRG with the understanding that SLVDRG will assist them in the creation of written accounting policies, procurement procedures, and develop financial management systems. The SLVCAA had established a separate bank account in August, 2010.

The SLVCAA Executive Board realizes that it is going to take time for this organization to become completely viable. To that end, we are developing our board, through the use of an independent CSBG consultant, creating strong relationships with the State, local governments, and non-profit service providers, and working closely with SLVDRG to establish strong financial and program controls. We have established systems that will support us during this transition period and look forward to the time when we are an independent and sustainable organization. SLVCAA's mission is to connect, support, refer, and improve the lives of at-risk residents of the San Luis Valley and the SLVCAA Board fully intends to meet this mission.

Submitted,



Robert Hagedorn, President  
San Luis Valley Community Action Agency

January 28, 2011