



December 13, 2010

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 Las Vegas–Clark County Urban League
(A-09-10-01011)

The attached final report provides the results of our limited scope review at Las Vegas–Clark County Urban League. Pursuant to the American Recovery and Reinvestment Act of 2009 (P.L. No. 111-5), the Office of Inspector General (OIG) provides 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-09-10-01011 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE REVIEW
AT LAS VEGAS—CLARK COUNTY
URBAN LEAGUE**



Daniel R. Levinson
Inspector General

December 2010
A-09-10-01011

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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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 reauthorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, 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. These programs address 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. Recovery Act funds were distributed to CAAs using the existing statutory formula.

The Nevada Department of Health and Human Services (State agency) acts as the lead agency for purposes of 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 CAAs' compliance with program regulations. The State agency was awarded \$5 million in Recovery Act funds for Nevada's CSBG program.

Las Vegas–Clark County Urban League (the Urban League), an affiliate of the National Urban League, is a nonprofit organization that provides services to over 5,000 participants throughout Clark County, Nevada. During fiscal year (FY) 2010, the State agency awarded the Urban League \$2,157,189 in CSBG funds and \$2,653,102 in Recovery Act funds, totaling \$4,810,291. For FY 2010, the Urban League received total Federal grant awards of approximately \$6.9 million.

OBJECTIVE

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

SUMMARY OF FINDINGS

Based on our assessment, the Urban League is financially viable, has the capacity to manage and account for Federal funds, and is capable of operating its CSBG program in accordance with Federal regulations. However, we noted weaknesses related to financial procedures, property management, and project execution.

RECOMMENDATION

We recommend that ACF consider the information presented in this report in assessing the Urban League's ability to operate its CSBG program in accordance with Federal regulations and in determining whether the Urban League is appropriately managing and accounting for Recovery Act funds.

URBAN LEAGUE COMMENTS

In written comments on our draft report, the Urban League provided information on actions that it had taken or planned to take to correct the identified weaknesses related to financial procedures, property management, and project execution. The Urban League'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 reauthorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P. L. No. 105-285 (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. These programs address 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. Recovery Act funds were distributed to CAAs using the existing statutory formula.

Nevada Department of Health and Human Services

The Nevada Department of Health and Human Services (State agency) acts as the lead agency for purposes of 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 CAAs' compliance with program regulations. The State agency was awarded \$5 million in Recovery Act funds for Nevada's CSBG program.

Las Vegas–Clark County Urban League

Las Vegas–Clark County Urban League (the Urban League), an affiliate of the National Urban League, is a nonprofit organization that provides services to over 5,000 participants throughout Clark County, Nevada. During fiscal year (FY) 2010, the State agency awarded the Urban League \$2,157,189 in CSBG funds and \$2,653,102 in Recovery Act funds, totaling \$4,810,291. For FY 2010, the Urban League received total Federal grant awards of approximately \$6.9 million.

Requirements for Federal Grantees

Pursuant to 2 CFR part 215 and 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 benefiting programs. In addition, grantees must establish written procurement procedures. Grantees are also required to maintain inventory control systems and conduct a periodic physical inventory of grant-related equipment.

Pursuant to 2 CFR § 215.27 and 45 CFR § 74.27, the allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of 2 CFR part 230, *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 the Urban League's financial viability, capacity to manage and account for Federal funds, and capability to operate its CSBG program in accordance with Federal regulations.

Scope

We conducted a limited review of the Urban League's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of the Urban League's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective. Our review period was FY 2010 (July 1, 2009, through June 30, 2010).

We performed our fieldwork at the Urban League's administrative office in Las Vegas, Nevada, in July 2010.

Methodology

To accomplish our objective, we:

- confirmed that the Urban League is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance and State guidance;
- reviewed the Urban League's application and implementation of the grant awards for Recovery Act funding;
- reviewed the findings related to the most recent State review of the Urban League's compliance with Federal and State CSBG requirements;
- reviewed the Urban League's policies and procedures related to the CSBG program;
- reviewed the Urban League's bylaws, minutes from the board of director meetings, composition of the board of directors, and organizational chart;
- performed audit steps to assess the adequacy of the Urban League's current financial systems;

- reviewed the Urban League’s audited financial statements for the periods January 1 through June 30, 2007; July 1, 2007, through June 30, 2008; and July 1, 2008, through June 30, 2009;
- interviewed the Urban League’s program managers to gain an understanding of the implementation of CSBG programs funded by the Recovery Act;
- interviewed the Urban League’s director of planning and compliance to gain an understanding of Recovery Act and Results Oriented Management and Accountability (ROMA) reporting;
- traced information in the Urban League’s Recovery Act reports to supporting documentation;
- compared the third-quarter FY 2010 ROMA report to supporting documents to assess the accuracy, completeness, and validity of the data reported; and
- reviewed income information in five judgmentally selected case files.

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, the Urban League is financially viable, has the capacity to manage and account for Federal funds, and is capable of operating its CSBG program in accordance with Federal regulations. However, we noted weaknesses related to financial procedures, property management, and project execution.

FINANCIAL PROCEDURES

Federal regulations (2 CFR part 230, Appendix A) provide the general principles to be applied to the composition of total costs, including establishing an indirect cost rate. Appendix A, subparagraph C.1., states that indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Examples of such costs are the salaries and expenses of executive officers and personnel administration and accounting expenses.

Federal regulations (2 CFR part 230, Appendix B, subparagraph 8.m.) state that charges to awards for salaries and wages, whether treated as direct or indirect costs, will be based on documented payrolls. The regulations also state that the distribution of salaries and wages to awards must be supported by personnel activity reports that reflect an after-the-fact

determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before services are performed) do not qualify as support for charges to awards.

The Urban League did not have a method for identifying or allocating indirect costs. For FY 2010, the organization did not charge indirect costs to most Federal awards. Instead, the organization incorrectly charged indirect-type costs as direct costs. For example, professional staff that performed functions such as accounting and payroll, which benefited multiple programs, directly allocated all of their time to only a few programs. Professional staff recorded their time based on budget estimates, not actual activity. Correct identification of indirect costs is important for distributing indirect costs to all programs and functions.

PROPERTY MANAGEMENT

Federal regulations (2 CFR § 215.34(f)) identify the following required property management standards for equipment acquired with Federal funds and federally owned equipment: (1) accurate equipment records, including a description of the equipment, an identification number, the source of the equipment (including the award number), the condition of the equipment, and ultimate disposition data; (2) proper identification of equipment owned by the Federal Government; and (3) physical inventory and reconciliation of equipment records at least once every 2 years.

The Urban League did not maintain equipment inventory records and had not conducted a physical inventory of equipment within the last 2 years. As of June 30, 2010, the Urban League had reported \$243,684 in equipment on its financial statements.

PROJECT EXECUTION

Recovery Act Reporting

On December 18, 2009, the Office of Management and Budget issued implementing guidance on grantees' reporting of the use of Recovery Act funds. Memorandum M-10-08, part 1, section 5, states that timely, complete, and effective reporting under section 1512 of the Recovery Act is a term and condition of receiving Recovery Act funding.

Section 1512(c) of the Recovery Act requires entities that receive recovery funds from a Federal agency to submit a report that contains "an estimate of the number of jobs created and the number of jobs retained by the project or activity"

To comply with Recovery Act reporting requirements, the State agency requires CAAs to submit quarterly reports containing information on jobs funded by the Recovery Act. The State agency's Recovery Act reporting instructions for CAAs state: "Only enter job data on the reporting form if the employee is paid from [Recovery Act] funds." For each employee paid with Recovery Act funds, CAAs are required to provide information such as the employment start date, the name of the company that employed the individual, the number of hours worked in the quarter, and the number of hours paid with Recovery Act funds. The reporting instructions also establish due dates for each quarterly reporting period.

The Urban League did not always submit accurate and timely Recovery Act reports to the State agency:

- Some line items in the reports included incorrect employment start dates, incorrect employer information, and/or an incorrect number of hours worked for the quarter.
- For the third reporting quarter of FY 2010, the Urban League overstated the number of individuals who were paid with Recovery Act funds. The Recovery Act report for the third quarter indicated that 32 individuals had received subsidized wages paid with Recovery Act funds. However, 11 of those individuals had not been paid with Recovery Act funds in the third quarter.
- The Urban League did not submit two of the four Recovery Act reports to the State agency on time.

Results Oriented Management and Accountability Reporting

Section 676(b)(12) of the CSBG Act states that the State plan must include “an assurance that the State and all eligible entities in the State will ... participate in the Results Oriented Management and Accountability System”

Section 678E(a)(1)(A) of the CSBG Act states: “... each State that receives funds under this subtitle shall participate, and shall ensure that all eligible entities in the State participate, in a performance measurement system”

The State agency’s ROMA reporting instructions for CAAs state: “The agency is required to maintain back-up documentation to support the total number of families and individuals reported.” These instructions also establish due dates for each quarterly reporting period.

The Urban League did not maintain adequate documentation to support the data on the quarterly ROMA reports. Furthermore, the reports were submitted 4 to 9 days after the due dates.

Incomes of Individuals Receiving Program Benefits

Section 673(2) of the CSBG Act states: “Whenever a State determines that it serves the objectives of the block grant program ... the State may revise the poverty line to not to exceed 125 percent of the official poverty line otherwise applicable under this paragraph.”

For the CSBG program, the Recovery Act allows States to revise the poverty line not to exceed 200 percent of the official poverty line.

The Nevada CSBG State plan amendment states: “Services will be targeted to adults and youth who are underemployed or unemployed and live in a household below 200% of poverty.”

The Urban League did not always ensure that the incomes of individuals receiving CSBG program benefits under the Recovery Act were below 200 percent of the Federal poverty level. Specifically, two of the five case files that we reviewed did not contain sufficient income information for individuals who received benefits provided under CSBG programs.

RECOMMENDATION

We recommend that ACF consider the information presented in this report in assessing the Urban League's ability to operate its CSBG program in accordance with Federal regulations and in determining whether the Urban League is appropriately managing and accounting for Recovery Act funds.

URBAN LEAGUE COMMENTS

In written comments on our draft report, the Urban League provided information on actions that it had taken or planned to take to correct the identified weaknesses related to financial procedures, property management, and project execution. The Urban League's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: LAS VEGAS–CLARK COUNTY URBAN LEAGUE COMMENTS



November 8, 2010

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit services
Department of Health and Human Services
90—7th St. Suite 3-650
San Francisco, CA 94103

Dear Ms. Ahlstrand,

Re: *Report Number A-09-10-01011*

In response to the Office of Inspector General (OIG) draft report entitled *Results of Limited Scope Review at Las Vegas-Clark County Urban League*, we offer the following comments.

FINANCIAL PROCEDURES

Finding

The Urban League did not have a method for identifying or allocating indirect costs. For FY 2010, the organization did not charge indirect costs to most Federal awards. Instead, the organization incorrectly charged indirect-type costs as direct costs. For example, professional staff that performed functions such as accounting and payroll, which benefited multiple programs, directly allocated all of their time to only a few programs. Professional staff recorded their time based on budget estimates, not actual activity. Correct identification of indirect costs is important for distributing indirect costs to all programs and functions.

Response

When the Las Vegas Urban League (UL) began in 2004, our indirect labor personnel consisted of only seven individuals. Our charges were based upon documented payrolls that were supported by activity details. Thus, the allocation issue was not a problem and we were in compliance with 2 CFR Part 230, Appendix B, subparagraph 8.m.

In the last two fiscal years, the staffing size of the UL's indirect labor personnel has tripled. In the fall of 2009 the UL attempted to submit an Indirect Cost Rate Application to DHHS', Regional Office in San Francisco. It was explained that the application can only be submitted to a federal agency that provided "direct" funding to our agency. In April 2010 the U. S. Department of Commerce became our cognizant agency for negotiating an

indirect cost rate. Our audited financial statements dated June 30, 2010 will be used to calculate the UL's indirect cost. This information will be submitted to the U. S. Department of Commerce to begin negotiations for an indirect cost rate. We expect to have the submittal by December 31, 2010.

In the interim, the agency has initiated a time study to be completed by all indirect personnel. Upon completion of the month long study, a compilation of the hours and activities will be used as the basis to allocate all future time to the programs being serviced by the indirect personnel. This system will be in place until an approved indirect cost rate has been received. After submission of indirect cost rate application, the expected approval time will range from three to six months before a provisional rate will be issued by the U. S. Department of Commerce.

PROPERTY MANAGEMENT

Finding

The Urban League did not maintain equipment inventory records and had not conducted a physical inventory of equipment within the last 2 years. As of June 30, 2010, the Urban League had reported \$243,684 in equipment on its financial statements. Prior to the UL's designation as a Community Action Agency in 2006, the acquisition of equipment and other fixed assets was a result of using unrestricted funds and our receiving donated items. No federal dollars were used.

Response

After Grant Awards were received, in particular CSBG, the financial accounting of the award amount and the items purchased has been maintained by our Finance Department in our Fixed Asset Schedule . The physical accountability of the assets was maintained by the individual departments. Since the bulk of the items purchased were computer and peripherals items, the Information Technology (IT) department kept information of those physical assets.

Our growth in the last two fiscal years exposed our need for a unified property management tracking system that would give details on the financial as well as the physical aspect of all assets by one reporting method.

In April 2010, the UL purchased a \$25,000 Inventory Tracking system. Immediately, a task force was assigned and trained on its use. The first phase of operation included the tagging of all ARRA funded purchases. The output report is in compliance with 2 CFR Part 215.34(f) and was completed by June 30, 2010.

We are now in phase two which began September 2010. The task force has expanded to include department representatives who are in the process of tagging all of their assets.

By December 31, 2010 the UL expects to be in full compliance of property management requirements.

PROJECT EXECUTION

Recovery Act Reporting

Finding

The Urban League did not always submit accurate and timely Recovery Act reports to the State agency:

- **Some line items in the reports included incorrect employment start dates, incorrect employer information, and/or an incorrect number of hours worked for the quarter.**

Response

In the startup phase of the program, the “intent to hire” document occasionally had a different start date than the actual hire date. The delay in the start date generally had to do with the time required to conduct background checks, obtain health cards, and solve transportation issues. However, this issue was resolved and did not result in any overpayment to the employee or the participating partner employers. Payments were calculated after bona-fide checks had been issued to employees and copies sent to the Urban League.

- **For the third reporting quarter of FY 2010, the Urban League overstated the number of individuals who were paid with Recovery Act funds. The Recovery Act report for the third quarter indicated that 32 individuals had received subsidized wages paid with Recovery Act funds. However, 11 of those individuals had not been paid with Recovery Act funds in the third quarter.**

The Urban League did overstate the number of employees who had received subsidized wages during the third quarter but this mistake was discovered and subsequently corrected. The Urban League in later reports used the correct start dates and end dates to assure that the number of individuals receiving subsidized wages was accurately reported.

- **The Urban League did not submit two of the four Recovery Act reports to the State agency on time.**

The late reports did not result in the Nevada Department of Health and Human Services missing their deadline for reporting. We were working to assure the accuracy of the reports and that resulted in the reports being late.

Results Oriented Management and Accountability Reporting

- **The Urban League did not maintain adequate documentation to support the data on the quarterly ROMA reports. Furthermore, the reports were submitted 4 to 9 days after the due dates.**

We have increased our documentation requirements for all programs and have established additional databases in all programs which receive CSBG funding. Some of our programs report directly to the State agencies on the number of clients seen and the services provided. We have established a method of capturing this information and including it in our ROMA reports where required. In addition we have trained our employees in the process of capturing the appropriate data needed for ROMA reports in our Adsystem computer program. One employee has received ROMA certification from the National Peer to Peer ROMA Project. She was sent to a four-day training and received said certification after completing the process. This employee is now responsible for assuring the quality of all entries into our computer system with full documentation in the files.

The Urban League did not always ensure that the incomes of individuals receiving CSBG program benefits under the Recovery Act were below 200 percent of the Federal poverty level. Specifically, two of the five case files that we reviewed did not contain sufficient income information for individuals who received benefits provided under CSBG programs.

The two files identified were for individuals who had initially entered the system through our Family Development office. The Urban League offered Employment and Training services in one office and Case Management in another office in close proximity. All clients were initially assessed in the office offering case management services then referred to the employment and training office. In a few cases the files with the income verification were in the Family Development office rather than duplicated in the Employment and Training office. Fully, 59 percent of the families receiving service from the Urban League reported having no income at all; this is possibly the reason that some case files did not contain sufficient income information. Our procedures have been revised to assure that all client income is fully documented. We require all clients to complete an income verification form and to present documentation of all income noted through check stubs, welfare verifications, child support documents etc.

RECOMMENDATION

We recommend that ACF consider the information presented in this report in assessing the Urban League's ability to operate its CSBG program in accordance with Federal regulations and in determining whether the Urban League is appropriately managing and accounting for Recovery Act Funds.

We strongly feel that the Urban League is fully capable of operating its CSBG program in accordance with Federal regulations and has shown its ability to do so. We will continue to work the State of Nevada CSBG Coordinator to ensure that issues related to the OIG audit are corrected.

Very truly yours,

/Morse Arberry/

Morse Arberry
Interim President and CEO