



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION IX
90 - 7TH STREET, SUITE 3-650
SAN FRANCISCO, CA 94103

June 20, 2012

Report Number: A-09-12-01000

Ms. Mila Kaahanui
Executive Director, Office of Community Services
Department of Labor and Industrial Relations
830 Punchbowl Street, Room 420
Honolulu, HI 96813

Dear Ms. Kaahanui:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Hawaii Claimed Unallowable Community Services Block Grant Costs for Administrative Expenditures Under the Recovery 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, or contact Doug Preussler, Audit Manager, at (415) 437-8309 or through email at Doug.Preussler@oig.hhs.gov. Please refer to report number A-09-12-01000 in all correspondence.

Sincerely,

/Lori A. Ahlstrand/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. Oscar Tanner
Director
Office of Financial Services
Sixth Floor East Wing, Aerospace Building
370 L'Enfant Promenade, SW
Washington, DC 20447

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**HAWAII CLAIMED UNALLOWABLE
COMMUNITY SERVICES
BLOCK GRANT COSTS FOR
ADMINISTRATIVE EXPENDITURES
UNDER THE RECOVERY ACT**



Daniel R. Levinson
Inspector General

June 2012
A-09-12-01000

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 American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, provided \$1 billion to the Community Services Block Grant (CSBG) program for fiscal years (FY) 2009 and 2010. As with annually appropriated CSBG funds, Recovery Act funds were to be used to reduce poverty, revitalize low-income communities, and help low-income Americans. In addition, CSBG services funded by the Recovery Act were to be provided on or before September 30, 2010.

Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF), Office of Community Services, administers the CSBG program. The CSBG program funds a State-administered network of more than 1,100 local community action agencies (CAA) that deliver programs and services to low-income Americans. The CAAs provide services addressing employment, education, better use of available income, housing, nutrition, and health to combat the causes of poverty.

In the State of Hawaii, the Department of Labor and Industrial Relations, Office of Community Services (State agency), was responsible for approving CAAs' applications for CSBG Recovery Act funds and monitoring CAAs' compliance with Federal requirements. Under the Recovery Act, the State agency was awarded \$5 million in CSBG funds for FYs 2009 and 2010. The State agency distributed the entirety of the CSBG Recovery Act award to four CAAs.

By accepting grant awards, States agree to comply with Federal regulations governing the administration of the grants, including compliance with various cost principles. States receiving CSBG Recovery Act funds are subject to 45 CFR part 96. ACF guidance stated that the Recovery Act (unlike the regular CSBG program) did not allow for State expenditures on administrative costs and statewide discretionary activities.

OBJECTIVE

Our objective was to determine whether the State agency complied with Federal requirements when distributing CSBG Recovery Act funds to the CAAs and returning unspent funds to the Federal Government.

SUMMARY OF FINDING

The State agency complied with Federal requirements when distributing the entirety of the \$5 million in CSBG Recovery Act funds to four CAAs. However, the State agency returned to the Federal Government only \$972,783 of the \$1,007,644 of funds not spent by the CAAs. The State agency claimed the remaining \$34,861 as administrative expenditures. These costs were unallowable under the CSBG Recovery Act award. The State agency claimed unallowable costs because it did not have adequate policies and procedures to ensure that the CSBG Recovery Act costs claimed were allowable in accordance with Federal requirements.

RECOMMENDATION

We recommend that the State agency refund to the Federal Government \$34,861 for unallowable costs.

STATE AGENCY COMMENTS

In its written comments on our draft report, the State agency concurred with our finding and provided information on corrective actions taken. The State agency did not explicitly address our recommendation but agreed that \$34,861 was unallowable. The State agency's comments are included in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, authorized supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization. The Recovery Act provided \$1 billion to the Community Services Block Grant (CSBG) program for fiscal years (FY) 2009 and 2010. As with annually appropriated CSBG funds, Recovery Act funds were to be used to reduce poverty, revitalize low-income communities, and help low-income Americans. In addition, CSBG services funded by the Recovery Act were to be provided on or before September 30, 2010.

Community Services Block Grant Program

The 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 and Human Services (HHS), 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 1,100 local community action agencies (CAA) that deliver programs and services to low-income Americans. The CAAs provide services addressing employment, education, better use of available income, housing, nutrition, and health to combat the causes of poverty. Recovery Act grant funds were intended to cover additional costs for the same types of services.

Hawaii Department of Labor and Industrial Relations, Office of Community Services

In the State of Hawaii, the Department of Labor and Industrial Relations, Office of Community Services (State agency), was responsible for approving CAAs' applications for CSBG Recovery Act funds and monitoring CAAs' compliance with Federal requirements. Under the Recovery Act, the State agency was awarded \$5 million in CSBG funds for FYs 2009 and 2010. The State agency distributed the entirety of the CSBG Recovery Act award (the award) to four CAAs.¹

Federal Requirements for Grantees

By accepting grant awards, States agree to comply with Federal regulations governing the administration of the grants, including compliance with various cost principles. States receiving CSBG Recovery Act funds are subject to 45 CFR part 96. ACF guidance stated that the Recovery Act (unlike the regular CSBG program) did not allow for State expenditures on administrative costs and statewide discretionary activities.

¹ In other audits, we reviewed award funds totaling \$4,094,877 distributed to two CAAs: Honolulu Community Action Program, Inc. (A-09-11-01007) and Hawaii County Economic Opportunity Council (A-09-11-01014).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency complied with Federal requirements when distributing CSBG Recovery Act funds to the CAAs and returning unspent funds to the Federal Government.

Scope

We reviewed the State agency's management of the \$5 million in CSBG Recovery Act funds for the period October 1, 2008, through September 30, 2010. We did not review the overall internal control structure of the State agency. We limited our review of internal controls to those that were significant to the objective of our audit.

We conducted our audit from June to December 2011 and performed fieldwork at the State agency's office in Honolulu, Hawaii.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed the State agency's State plan for the award;
- reviewed the State agency's methodology for distributing award funds;
- reviewed the State agency's financial management policies and procedures;
- interviewed State agency officials to gain an understanding of the costs charged under the award;
- reviewed the State agency's Final Financial Status Report (SF-269 Short form) related to the award;
- reconciled award costs claimed with the State agency's drawdown reports;
- interviewed State agency officials and reviewed supporting documentation to determine whether the State agency returned unspent award funds to the Federal Government;
- reviewed supporting documentation related to the administrative costs claimed under the award; and
- discussed our finding with State agency officials.

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

FINDING AND RECOMMENDATION

The State agency complied with Federal requirements when distributing the entirety of the \$5 million in CSBG Recovery Act funds to four CAAs. However, the State agency returned to the Federal Government only \$972,783 of the \$1,007,644 of funds not spent by the CAAs. The State agency claimed the remaining \$34,861 as administrative expenditures. These costs were unallowable under the CSBG Recovery Act award. The State agency claimed unallowable costs because it did not have adequate policies and procedures to ensure that the CSBG Recovery Act costs claimed were allowable in accordance with Federal requirements.

FEDERAL REQUIREMENTS

American Recovery and Reinvestment Act

The Recovery Act stated that 1 percent of the additional CSBG funds provided to States for carrying out activities under sections 674 through 679 of the CSBG Act were to be used for benefits enrollment coordination activities related to the identification and enrollment of eligible individuals and families in Federal, State, and local benefit programs. The remaining funds available to States were to be distributed to eligible entities, such as CAAs.

Administration for Children and Families Guidance

ACF's CSBG Information Memorandum, Transmittal No. 109, stated that the Recovery Act (unlike the regular CSBG program) did not allow for State expenditures on administrative costs and statewide discretionary activities.

UNALLOWABLE COSTS CLAIMED FOR ADMINISTRATIVE EXPENDITURES

The State agency awarded \$5 million in CSBG Recovery Act funds to the CAAs. The award included up to \$50,000 (or 1 percent of the total) for benefits enrollment coordination activities related to the identification and enrollment of eligible individuals and families in Federal, State, and local benefit programs.

Of the award, the State agency claimed \$3,992,356 for the CAAs' program expenditures, which included \$45,402 for benefits enrollment coordination activities. Of the \$1,007,644 not expended by the CAAs, the State agency claimed \$34,861 of unallowable costs for its administrative expenditures and returned only \$972,783 to the Federal Government. Specifically, the State agency claimed:

- \$23,068 of salaries and wages related to its administrative staff;
- \$8,526 of fringe benefits applicable to those salaries and wages;
- \$2,688 of travel costs (i.e., per diem, airfare, and car rental costs) incurred by its administrative staff; and
- \$579 of office supplies.

State agency officials agreed that these costs should not have been claimed under the award. According to State agency officials, the staff believed that, as with regular CSBG funding, administrative costs could be claimed under the Recovery Act.

The State agency did not have adequate policies and procedures to ensure that the costs claimed for its administrative expenditures were allowable in accordance with Federal requirements. State agency officials indicated that the staff did not have an adequate understanding of the Recovery Act requirements for the CSBG program.

RECOMMENDATION

We recommend that the State agency refund to the Federal Government \$34,861 for unallowable costs.

STATE AGENCY COMMENTS

In its written comments on our draft report, the State agency concurred with our finding and provided information on corrective actions taken. The State agency did not explicitly address our recommendation but agreed that \$34,861 was unallowable. The State agency's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: STATE AGENCY COMMENTS

NEIL ABERCROMBIE
GOVERNOR



DWIGHT TAKAMINE
DIRECTOR

AUDREY HIDANO
DEPUTY DIRECTOR

MILA KA'AHANUI
EXECUTIVE DIRECTOR

STATE OF HAWAII
OFFICE OF COMMUNITY SERVICES
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
830 PUNCHBOWL STREET, ROOM 420
HONOLULU, HAWAII 96813

May 29, 2012

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
Office of Audit Services, Region IX
Office of Inspector General
U. S. Department of Health and Human Services
90 7th Street, Suite 3-650
San Francisco, California 94103

RE: State of Hawaii Department of Labor and Industrial Relations, Office of
Community Services (HOCS) Response to Draft Report # A-09-12-01000

Dear Ms. Ahlstrand:

HOCS is pleased to submit a response to OIG draft report # A-09-12-01000 with the following quote from the report to provide context:

“Administration for Children and Families Guidance
ACF’s CSBG Information Memorandum, Transmittal No. 109, stated that the Recovery Act (unlike the regular CSBG program) did not allow for State expenditures on administrative costs and statewide discretionary activities.

UNALLOWABLE COSTS CLAIMED FOR ADMINISTRATIVE EXPENDITURES
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May 29, 2012
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- \$23,068 of salaries and wages related to its administrative staff;
- \$8,526 of fringe benefits applicable to those salaries and wages;
- \$2,688 of travel costs (i.e., per diem, airfare, and car rental costs) incurred by its administrative staff; and
- \$579 of office supplies.

State agency officials agreed that these costs should not have been claimed under the award. According to State agency officials, the staff believed that, as with regular CSBG funding, administrative costs could be claimed under the Recovery Act.

The State agency did not have adequate policies and procedures to ensure that the costs claimed for its administrative expenditures were allowable in accordance with Federal requirements.

State agency officials indicated that the staff did not have an adequate understanding of the Recovery Act requirements for the CSBG program.

RECOMMENDATION

We recommend that the State agency refund to the Federal Government \$34,861 for unallowable costs."

State Response:

Generally, the State concurs with this finding. The costs charged to CSBG-ARRA were normal and reasonable administrative costs usually allocated among all programs. However, the CSBG-ARRA award did not allow the five percent administrative allotment usually contained in the regular CSBG award and consequently, this anomaly was not considered when the State allocated costs associated with program operations. Upon review of the guidance it was found and agreed upon that these costs were unallowable.

Background:

During the time of the CSBG-ARRA grant, HOCS experienced high turnover, with two Executive Directors and three administrators of the CSBG. During this time, the Senior Accountant policies included a yearly payroll reconciliation schedule for HOCS. Payroll and other administrative or non-direct costs were allocated among programs, with final reconciliation backed by documentation occurring at the end of the respective program cycle.

For the purposes of this audit it appears the charges were applied to CSBG-ARRA, as was the normal practice, however the reconciliation based on actual expenses and allowability did not occur at the end of the grant cycle. Although this is the conclusion of the current staff, this statement cannot be verified for certain as both the Executive Director and the Senior Accountant during this grant period are no longer employed at HOCS.

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Corrective Actions:

1. The OIG draft report states that HOCS did not have adequate policies and procedures to ensure that the costs claimed for its administrative expenditures were allowable under the Recovery Act.
 - A. Since the appointment of a new Executive Director in December 2010 and the hiring of a new Senior Accountant in April 2011, HOCS has updated its cost allocation methodology to conform more closely to the direct costing provided by our electronic database, the "Cost Allocation System (CAS)." This system allows better tracking of activities of specific staff, including administrative duties and direct program duties, in an electronic format.
 - B. Under the direction of the current Executive Director, HOCS has moved to a quarterly reconciliation system. The current Senior Accountant now reconciles each grant account on a quarterly basis, ensuring better tracking of expenditure rates and outcome delivery, as well as more accurate expenditure prediction during the grant year.
 - C. HOCS is updating all policies and procedures to comport with updated Federal regulations such as the Federal Fund Accountability and Transparency Act and Central Contractor Registry.
2. The OIG draft report states that HOCS staff did not have an adequate understanding of the Recovery Act requirements for the CSBG program.
 - A. To account for the complexity of the program, HOCS has assigned its most senior program manager to the CSBG. This program manager has general experience in a number of anti-poverty programs, as well as contracting and oversight experience. This manager has attended two CSBG conferences since the ARRA period to ensure knowledgeable, informed oversight.

We believe this statement to be adequate to address the OIG's concerns, and are ready to provide additional information if necessary. HOCS believes our overall administration of the program is sound, as the heightened scrutiny of ARRA has resulted in only a single finding for the State. If you have any concerns or require additional information, please contact me at (808) 586-8675 or at Mila.S.Kaahanui@hawaii.gov.

Sincerely,



MILA KAAHANUI, MSW
Executive Director