CALIFORNIA DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

Review Report

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

July 1, 2009, through September 30, 2010

JOHN CHIANG
California State Controller

August 2012

JOHN CHIANG
California State Controller

August 31, 2012

John A. Wagner, Director
California Department of Community Services and Development
2389 Gateway Oaks Drive, Suite 100
Sacramento, CA 95833

Dear Mr. Wagner:

The State Controller's Office (SCO) reviewed the American Recovery and Reinvestment Act (ARRA) expenditures reported by the California Department of Community Services and Development for the period of July 1, 2009, through September 30, 2010.

The department was awarded $278 million for administering the ARRA-Community Services Block Grant (CSBG), Weatherization Assistance, and Lead-Based Paint Hazard Control programs. As of September 30, 2010, the department had disbursed $99.7 million to the sub-recipients—$58.5 million for the ARRA-CSBG, $40.8 million for the Weatherization Assistance, and $0.4 million for the Lead-Based Paint Hazard Control programs.

We selected for review nine sub-recipients receiving ARRA-CSBG funds, representing total expenditures of $20,890,405 for the period. We tested $4,369,930, and questioned $1,651,366 because costs were not in compliance with federal grant requirements.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Costs Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

Attachment

cc: Linné Stout, Chief Deputy Director
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Jean Johnson, Deputy Director, Administrative Services
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Tuan Trinh, Chief Financial Officer
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Northern California Indian Development Council
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Proteus, Inc.

Armie Tolentino, Corporate Financial Officer
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Jim Masters, Interim Executive Director
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Sharon M. Fujii, Regional Administrator, Region IX
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Jeannie Chaffin, Director, Office of Community Services
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Seth Hassett, Director, Division of State Assistance
U.S. Department of Health and Human Services
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Review Report

Summary

The State Controller's Office (SCO) reviewed the American Recovery and Reinvestment Act of 2009 (ARRA) expenditures reported by the California Department of Community Services and Development through September 30, 2010.

In total, the department was awarded $278 million in ARRA funds—$89.2 million for the ARRA-Community Service Block Grant (ARRA-CSBG), $185.8 million for the Weatherization Assistance (Weatherization), and $3 million for the Lead-Based Paint Hazard Control (Lead) programs. As of September 30, 2010, the department had disbursed $99.7 million to the sub-recipients—$58.5 million for the ARRA-CSBG, $40.8 million for the Weatherization, and $0.4 million for the Lead programs.

Of the $89.2 million awarded for the ARRA-CSBG program, the department disbursed $88.2 million to the sub-recipients for costs incurred during the award period (Schedule 1).

We selected for review nine sub-recipients receiving ARRA-CSBG funds. As of the program completion, those nine sub-recipients reported total expenditures of $20,890,405 (Schedule 3). We tested $4,369,930, and questioned $1,651,366 because:

- Salary and benefit costs were not in compliance with federal cost principles (Finding 2);
- Subcontractor services were unallowable or inadequately supported (Finding 3);
- Services were provided or payments were made past the period of availability (Finding 4);
- Costs were unallowable (Finding 5);
- Documentation of program participant eligibility was incomplete or incorrect (Finding 6); and
- Award expenditures did not reconcile to accounting records and excess earned interest income was not reported (Finding 7).

As the administering state agency, the California Department of Community Services and Development is responsible for determining whether reported expenditures are in compliance with program guidelines. For each of the sub-recipients selected for review, we have prepared a separate report. These reports are included in this report as an Appendix.

Background

On February 13, 2009, the federal government enacted ARRA to help fight the negative effects of the United States' economic recession. ARRA's purpose is to preserve and create jobs; promote economic recovery; assist those most affected by the recession; invest in transportation, environmental protections, and other infrastructure; and stabilize state and local government budgets. To achieve these results, ARRA required federal agencies to initiate expenditures and activities as quickly and prudently possible.

The federal government intends to provide $787 billion to recipients under the ARRA program. A large portion of these funds will be disbursed to states, local governments, territories, and tribes, which in turn will distribute funds to beneficiaries through grants, contracts, subsidies, and loan programs.

ARRA-CSBG Program

The ARRA-CSBG program was created to help organizations in states and local communities provide a broad range of services and activities to help reduce poverty, revitalize low-income communities, and empower low-income families and individuals to become self-sufficient. Organizations within state and local communities that may receive grant funds include community action agencies, migrant and seasonal farm worker organizations, limited-purpose agencies, and Native American Indian agencies.

Grant recipients are required to provide services and activities that have measureable and potential major impacts on the causes of poverty in the community or in those areas where poverty is an acute problem. Such activities should be designed to assist low-income individuals in securing and retaining meaningful employment, attaining an adequate education, making better use of available income, obtaining emergency assistance to address immediate needs, removing obstacles and solving problems that hinder self-sufficiency, and allowing increased individual participation in community affairs. To meet these objectives, grant recipients were provided with discretion as to how funds could be used to meet the unique needs of communities.

The program requires states to distribute 99% of the grant funds to entities that received allocations under the Community Services Block Grant program. States are required to use the remaining 1% of grant funds to pay for benefits-enrollment coordination activities. The department received permission from the federal awarding agency to distribute these funds under separate subcontracts with eligible entities to increase utilization of the Earned Income Tax Credit by low-income Californians.

As regards sub-recipients, the program allows the use of up to 12% of grant award funds for administrative activities.

Weatherization Assistance Program

The Weatherization program provides low-income property owners and renters with services designed to improve the energy efficiency of their homes, reducing energy usage and costs and safeguarding the health and safety of the household. Households are also educated on basic energy efficiency practices and instructed on the proper use and maintenance of the measures installed.

Grant recipients are required to use the funds on projects that improve the thermal efficiency and cooling of dwellings by installing weatherization materials such as attic insulation, caulking, weather-stripping, furnace efficiency modifications, and by performing other related maintenance activities on heating and cooling equipment.

Lead-Based Paint Hazard Control Program

The Lead program makes grants available to states and local governments to evaluate cost-effective approaches to remediate lead in low-income, privately owned housing. Residences built prior to 1978 and occupied by a child under the age of six are targeted for lead hazard control, and units that are occupied by an elevated-blood-level child are also eligible for services.

Grant recipients should provide activities that meet the following objectives: maximize the combination of children less than six years of age protected from lead poisoning and housing units where lead hazards are controlled; prevent childhood lead poisoning; develop lower-cost and cost-effective methods for controlling lead-hazard-control work; build local capacity to safely and effectively address lead hazards; ensure that information concerning lead hazards is communicated in communities; and promote job training, employment, and other economic opportunities for low-income and minority residents and businesses.

Review Authority

Section 7 of Article 16 of the State Constitution and Government Code section 12410 provide the SCO authority to review and approve each request by a state agency for expenditure of state and federal funds. This authority extends to field reviews of state agencies to investigate suspicion of fraud, waste, and abuse. In addition, Government Code section 12418 provides the SCO with authority to recover misspent funds.

Objectives, Scope and Methodology

We conducted the review to assess the department's controls over the implementation and administration of ARRA funds to ensure that the funds were accounted for and spent in accordance with the applicable federal requirements for the following three awards:

ARRA-Community Services Block Grant
Funding Agency: Department of Health and Human Services
Award No. 0901CACOS2
CFDA No. 93.710
Total Award: $89,150,062

Weatherization Assistance
Funding Agency: Department of Energy
Award No. DE-EE0000180
CFDA No. 81.042
Total Award: $185,811,061

Lead-Based Paint Hazard Control
Funding Agency: Department of Housing and Urban Development
Award No. CALHB0411-08
CFDA No. 14.900
Total Award: $3,000,000

Our review consisted of two phases: Phase I was an internal control survey conducted at the department in November 2010. The following procedures were performed during Phase I:

- Reviewed the readiness assessments, review reports, and audit reports performed by the Department of Finance and the Bureau of State Audits concerning the department's administration of ARRA funds.
- Reviewed the level of expenditures reported for each award.

During the process of Phase I, we reviewed and evaluated the department's system of internal controls over the ARRA-CSBG program. The following procedures were performed during this review:

- Interviewed department staff members to understand the policies and procedures governing the monitoring of ARRA-CSBG funds.
- Determined if monitoring processes are supported with documentation, properly completed, and if sub-recipient monitoring activities was adequate.

We did not review the department's controls over the Lead program because the awarded grant amount was small. Further, we did not review the department's controls over the Weatherization program because this program was already reviewed by other state auditors.

Based on the results of Phase I, we performed Phase II, which was expenditure testing of ARRA-CSBG expenditures reported by sub-recipients.

In November 2011, we met with department representatives to discuss our evaluation of the department's monitoring processes. We conducted an exit conference with department representatives in February 2012 to discuss our review results. Subsequent to these meetings, we followed up on additional information that the department provided to us.

The department has 82 contracts with 59 sub-recipients for ARRA-CSBG funding. We initially selected 16 contracts to review. Based on further analysis, we narrowed our review to 9 contracts (11%), all of which were awarded to the following non-profit agencies:

- Community Action Board of Santa Cruz County
- Community Action of Ventura County
- Community Action Partnership of Kern County
- Community Action Partnership of Orange County
- Community Action Partnership of San Bernardino County
- Community Action Partnership of San Luis Obispo County
- Economic Opportunity Council of San Francisco
- Northern California Indian Development Council
- Proteus, Inc.

Our review scope included, but was not limited to, planning and performing procedures to obtain reasonable assurance that:

- Salary and benefit costs were properly calculated and supported;
- Program participants receiving assistance were eligible;
- Expenditures were incurred and payments were provided within the applicable period of availability; and
- Grant activities were allowable.

Accordingly, we examined transactions on a test basis.

We performed the review in consideration of the requirements identified in Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the ARRA-CSBG program:

- Activities Allowed or Unallowed—ARRA-CSBG funds can be used only for activities that meet the criteria for the program.
- Allowable Costs/Cost Principles—OMB cost principle circulars prescribe the cost accounting policies associated with the administration of federal awards. Non-profit organizations are subject to OMB Circular A-122, *Cost Principles for Non-Profit Organizations* (Title 2, *Code of Federal Regulations* (CFR), Part 230) requirements and local governments are subject to OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225) requirements.

- Cash Management—Interest earned in excess of $250 by non-state, non-profit entities on awarded funds is required to be reported and returned to the federal agency.
- Eligibility—Program participants are required to have an annual or monthly income at or below 200% of the federal poverty guidelines for the region.
- Earmarking—One percent of costs should be used for benefits enrollment coordination activities relating to the identification and enrollment of eligible individuals and families.
- Period of Availability of Federal Funds—Services must be provided on or before September 30, 2010, and liquidated on or before December 29, 2010.
- Procurement and Suspension/Debarment—Recipients are responsible for ensuring that procurement for goods or services are made with organizations that are not suspended or debarred from federal contracts.
- Reporting—Recipients should use the standard financial reporting forms authorized by the OMB.
- Sub-recipient Monitoring—Recipients are responsible for award identification, during-the-award monitoring, sub-recipient audits, and pass-through entity impact.
- Special Tests and Provisions—Recipients are required to provide 99% of grant funds as subgrants to eligible entities.

We believe the evidence obtained in the course of the review provides a reasonable basis for our findings and conclusions relative to our review objectives. We also note that the monitoring activities and processes reviewed for ARRA-CSBG program were the same as for the CSBG program, with a few additional procedures. Therefore, our findings and observations may be considered for the department's ongoing responsibilities concerning the CSBG program.

Conclusion

Our review disclosed instances of noncompliance with federal regulations. These instances are described in the accompanying Schedule of Expenditures of Federal Awards for the ARRA-CSBG (Schedule 3), in the Findings and Recommendations section of this report. The results of the testing for compliance with OMB Circular A-133 requirements are identified below.

- Activities Allowed or Unallowed—We noted no instances of noncompliance.
- Allowable Costs/Cost Principles—We noted multiple instances of noncompliance (Findings 2, 3, 5, 6, and 7).

- Cash Management—We noted an instance of noncompliance (Finding 7).
- Eligibility—We noted several instances of noncompliance (Finding 6).
- Earmarking—We noted no instances of noncompliance.
- Period of Availability of Federal Funds—We noted several instances of noncompliance (Finding 4).
- Procurement and Suspension/Debarment—We noted no instances of noncompliance.
- Reporting—We noted no instances of noncompliance.
- Sub-recipient Monitoring—We noted several instances of noncompliance (Findings 1 and 3).
- Special Tests and Provisions—We noted no instances of noncompliance.

Views of Responsible Official

We issued a revised draft report on July 11, 2012. John A. Wagner, Director, responded by letter dated August 1, 2012 (Attachment 2), agreeing with the recommendations. The response letter provided clarification regarding some of the issues reported. This final review report includes the department's response.

Restricted Use

This report is solely for the information and use of the California Department of Community Services and Development, the U.S. Department of Health and Human Services, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

August 31, 2012

Schedule 1—
Schedule of Funds Awarded and Disbursed to Sub-Recipients
ARRA-Community Services Block Grant Program
Award No. 0901CACOS2
July 1, 2009, through September 30, 2010

Contract Number	Sub-Recipient	Amount Awarded	Amount Disbursed [1]
09F-5101	Berkeley, City of	$ 308,958	$ 308,958
09F-5102	Alameda County	964,188	964,188
09F-5103	Oakland, City of	1,212,697	1,212,696
09F-5104	Inyo Mono Advocates for Community Action [2]	3,731	—
09F-5105	Amador Tuolumne Community Action Agency	135,076	131,737
09F-5106	Community Action Agency of Butte County	620,901	620,901
09F-5107	Mariposa County	114,080	106,588
09F-5108	Contra Costa County	1,135,085	1,135,085
09F-5109	Del Norte Senior Center	75,374	75,374
09F-5110	El Dorado County	175,375	175,375
09F-5111	Fresno County Economic Opportunities Commission	2,839,577	2,839,577
09F-5112	Glenn County Human Resource Agency	159,703	159,703
09F-5113	Redwood Community Action Agency	381,347	381,347
09F-5114	Campesinos Unidos	470,900	470,900
09F-5115	Inyo Mono Advocates for Community Action	58,956	58,956
09F-5116	Community Action Partnership of Kern	2,076,884	2,076,884
09F-5117	Kings Community Action Organization	338,063	338,063
09F-5118	Lake County Community Action Agency	159,703	159,703
09F-5119	Plumas County	103,732	103,732
09F-5120	Foothill Unity Center	609,707	609,707
09F-5121	Long Beach Community Services Dev. Corp.	1,640,313	1,640,313
09F-5122	Los Angeles County	11,602,340	11,214,603
09F-5123	Los Angeles, City of	12,702,347	12,680,680
09F-5124	Community Action Partnership of Madera County	388,809	388,809
09F-5125	Community Action Marin	247,763	247,763
09F-5126	North Coast Opportunities	214,181	214,181
09F-5127	Merced County Community Action Board	714,185	714,185
09F-5128	Siskiyou County	159,703	159,573
09F-5129	Monterey County	819,410	809,874
09F-5130	Community Action of Napa Valley	157,464	157,464
09F-5131	Nevada County	116,419	116,419
09F-5132	Community Action Partnership of Orange County	4,590,339	4,590,339
09F-5133	Placer County-Adult System of Care	226,121	225,491
09F-5134	Riverside County	3,394,806	3,394,806
09F-5135	Sacramento Employment & Training Agency	2,692,561	2,692,561
09F-5136	San Benito County	82,837	82,837
09F-5137	Community Action Partnership of San Bernardino County	4,176,902	4,176,902
09F-5138	San Diego County	5,366,465	5,366,465
09F-5139	Economic Opportunity Council of San Francisco	1,373,146	1,373,146
09F-5140	San Joaquin County	1,539,566	1,539,566

Schedule 1 (continued)

Contract Number	Sub-Recipient	Amount Awarded	Amount Disbursed [1]
09F-5141	Community Action Partnership of San Luis Obispo County	472,392	472,392
09F-5142	Community Action Agency of San Mateo County	645,528	182,155
09F-5143	Community Action Commission of Santa Barbara County	873,888	873,888
09F-5144	Sacred Heart Community Service	1,973,898	1,973,898
09F-5145	Community Action Board of Santa Cruz County	465,676	465,676
09F-5146	Shasta County	389,556	389,556
09F-5147	Community Action Partnership of Solano JPA	497,019	497,019
09F-5148	Community Action Partnership of Sonoma County	576,124	576,124
09F-5149	Central Valley Opportunity Center	1,116,428	1,116,428
09F-5150	Sutter County Community Action Agency	191,046	187,250
09F-5151	CAA Housing Authority of Tehama County	150,748	150,728
09F-5152	Community Services & Employment Training	1,373,146	1,373,033
09F-5153	Community Action of Ventura County	1,086,577	1,069,890
09F-5154	Yolo County	472,392	471,953
09F-5155	Yuba County	193,285	189,772
09F-5156	Karuk Tribe of California	110,127	110,127
09F-5157	Northern California Indian Development Council	3,025,446	3,024,648
09F-5158	Los Angeles County	688,965	672,510
09F-5160	California Human Development Corporation	2,255,497	2,255,497
09F-5161	Proteus, Inc.	3,628,407	3,628,407
09F-5162	Central Valley Opportunity Center	882,586	882,586
09F-5163	Center for Employment Training	3,040,017	3,040,017
09F-5171	Community Services & Employment Training	48,166	48,166
09F-5172	Fresno County Economic Opportunities Commission	40,000	40,000
09F-5173	Redwood Community Action Agency	27,640	27,640
09F-5174	Community Action Board of Santa Cruz County	50,000	50,000
09F-5175	Monterey County	45,000	44,988
09F-5176	North Coast Opportunities	43,502	43,502
09F-5177	Community Action Partnership of Orange County	45,000	45,000
09F-5178	CAA Housing Authority of Tehama County	28,803	28,757
09F-5179	Amador Tuolumne Community Action Agency	36,337	36,337
09F-5180	Community Action of Napa Valley	45,000	45,000
09F-5181	Community Action Marin	45,000	45,000
09F-5182	Yolo County	44,866	43,693
09F-5183	Glenn County Human Resource Agency	45,000	45,000
09F-5184	Community Action Partnership of San Bernardino County	50,000	50,000
09F-5185	Kings Community Action Organization	40,000	40,000
09F-5186	Community Action Partnership of Sonoma County	36,959	36,959
09F-5187	Sacramento Employment & Training Agency	45,000	45,000
09F-5188	Community Action Partnership of Kern	45,000	45,000
09F-5189	Proteus, Inc.	50,000	50,000
09F-5190	Community Action Partnership of San Luis Obispo County	30,227	30,227
09F-5191	Central Valley Opportunity Center	50,000	47,874
Totals		$ 89,149,962	$ 88,207,148

[1] Funds disbursed reflects reported expenditures, returned interest income, and abatements.

[2] The sub-recipient did not execute its contract; no funds were disbursed

Schedule 2—
Selected Contracts of Sub-Recipients
ARRA-Community Services Block Grant Program
Award No. 0901CACOS2
July 1, 2009, through September 30, 2010

Contract Number	Sub-Recipient	Amount Awarded	Amount Disbursed
09F-5116	Community Action Partnership of Kern County	$ 2,076,884	$ 2,076,884
09F-5132	Community Action Partnership of Orange County	4,590,339	4,590,339
09F-5137	Community Action Partnership of San Bernardino County	4,176,902	4,176,902
09F-5139	Economic Opportunity Council of San Francisco	1,373,146	1,373,146
09F-5141	Community Action Partnership of San Luis Obispo County	472,392	472,392
09F-5145	Community Action Board of Santa Cruz County	465,676	465,676
09F-5153	Community Action of Ventura County [1]	1,086,577	1,069,890
09F-5157	Northern California Indian Development Council [2]	3,025,446	3,024,648
09F-5161	Proteus, Inc.	3,628,407	3,628,407
Totals		$ 20,895,769	$ 20,878,284

[1] The sub-recipient did not expend the entire contract allocation.

[2] The sub-recipient returned earned interest income in excess of $250, which totaled $798.

Schedule 3—
Schedule of Expenditures of Federal Awards
ARRA-Community Services Block Grant Program
Award No. 0901CACOS2
July 1, 2009, through September 30, 2010

Contract Number	Sub-Recipient	Reported Expenditures[1]	Federal Expenditures Tested	Amount Questioned	Reference[2]
09F-5116	Community Action Partnership of Kern County:				
	Salaries and benefits	$ 860,667	$ 74,965	$ —	
	Other costs	1,216,310	329,161	31,072	Findings 3, 4, 5
	Total expenditures	$ 2,076,977	$ 404,126	$ 31,072	
09F-5132	Community Action Partnership of Orange County:				
	Salaries and benefits	$ 513,114	$ 62,719	$ —	
	Other costs	4,088,237	497,154	44,293	Findings 3, 7
	Total expenditures	$ 4,601,351	$ 559,873	$ 44,293	
09F-5137	Community Action Partnership of San Bernardino County:				
	Salaries and benefits	$ 550,706	$ 102,975	$ 88,256	Finding 2
	Other costs	3,626,414	458,747	135,100	Findings 4, 5
	Total expenditures	$ 4,177,120	$ 561,722	$ 223,356	
09F-5139	Economic Opportunity Commission of San Francisco:				
	Salaries and benefits	$ 492,748	$ 300,000	$ 300,000	Finding 2
	Other costs	880,398	696,429	692,429	Findings 3, 4, 6
	Total expenditures	$ 1,373,146	$ 996,429	$ 992,429	
09F-5141	Community Action Partnership of San Luis Obispo County:				
	Salaries and benefits	$ 379,403	$ 34,293	$ —	
	Other costs	92,989	40,056	—	
	Total expenditures	$ 472,392	$ 74,349	$ —	
09F-5145	Community Action Board of Santa Cruz County:				
	Salaries and benefits	$ 379,355	$ 153,459	$ 138,382	Finding 2
	Other costs	86,321	13,129	—	
	Total expenditures	$ 465,676	$ 166,588	$ 138,382	
09F-5153	Community Action of Ventura County:				
	Salaries and benefits	$ 328,830	$ 42,675	$ —	
	Other costs	741,060	90,721	—	
	Total expenditures	$ 1,069,890	$ 133,396	$ —	

Schedule 3 (continued)

Contract Number	Sub-Recipient	Reported Expenditures [1]	Federal Expenditures Tested	Amount Questioned	Reference[2]
09F-5157	Northern California Indian Development Council:				
	Salaries and benefits	$ 1,681,307	$ 665,731	$ 14,482	Finding 2
	Other costs	1,344,139	—	—	
	Total expenditures	$ 3,025,446	$ 665,731	$ 14,482	
09F-5161	Proteus, Inc.:				
	Salaries and benefits	$ 1,176,892	$ 80,363	$ —	
	Other costs	2,451,515	727,353	207,352	Findings 3, 5, 7
	Total expenditures	$ 3,628,407	$ 807,716	$ 207,352	
	Recap, All sub-recipients:				
	Salaries and benefits	$ 6,363,022	$ 1,517,180	$ 541,120	
	Other costs	14,527,383	2,852,750	1,110,246	
	Total expenditures, all sub-recipients	$ 20,890,405	$ 4,369,930	$ 1,651,366	

[1] Sub-recipients were not reimbursed for reported expenditures in excess of their awarded contract.

[2] See Findings and Recommendations section.

Findings and Recommendations

FINDING 1—
Inadequate sub-recipient monitoring

As the prime recipient of American Recovery and Reinvestment Act of 2009 (ARRA) funds, the California Department of Community Services and Development is responsible for award identification, during-the-award monitoring, sub-recipient audits, and pass-through entity impact.

During-the-award monitoring relates to the department's monitoring of sub-recipients' use of federal awards through reporting, site visits, and regular contact. For the ARRA-Community Service Block Grant (ARRA-CSBG) program, the department was effective in monitoring sub-recipient awards (award identification) and ineffective in monitoring sub-recipients' use of funds (during-the-award monitoring and sub-recipient audits). We did not evaluate the department's processes for assessing pass-through entity impact.

Monitoring activities were performed by program monitors in the Community Services Division and audit staff in the Audit Services Unit (ASU). Program monitors performed activities that included desk reviews, on-site visits, reviews of expenditure spending levels ("post-secondary reviews"), and reviews of final award expenditure amounts ("closeout reports"). ASU staff activities included desk reviews of sub-recipients' single audit reports and on-site visits. Roughly half of the single audit report reviews are performed by an independent contractor.

Desk reviews were performed by program monitors to determine if an on-site review was necessary to (1) assess an agency's fiscal accountability and programmatic performance (which considers material breaches of the ARRA-CSBG contract) and (2) determine whether any training and technical assistance are needed. Each desk review results in a recommendation on whether an on-site review should be performed.

The program monitors conducted separate desk reviews and on-site reviews for the CSBG, which is a separate federal program. The CSBG program requires the department to perform on-site reviews of sub-recipients within a three-year cycle, as defined by the federal awarding agency. If the department already scheduled on-site reviews of sub-recipients for the CSBG program, it may have also performed an on-site review for the ARRA-CSBG program. The scheduling of an on-site review based on pre-scheduled on-site reviews for the CSBG program was not formally considered in its desk review for the ARRA-CSBG program. Staff tracked monitoring findings of each program in separate computer files.

In addition to its monitoring duties, program monitors and ASU staff members provided sub-recipients with training and guidance on use of federal funds. The ASU staff members developed supplementary audit procedures intended for single auditors to use in audits of sub-recipients.

Staff members were responsible for communicating monitoring issues to management. Management stated that it considered monitoring issues brought to its attention. Further, management stated that it convened specialized task force meetings to discuss plans to resolve significant

monitoring issues. The department also received allegations of misuse of program funds by outside parties ("whistleblower complaints"). In these instances, the chief legal counsel would review whistleblower complaints and determine the appropriate response.

- **The department did not formally consider risk in its monitoring activities.**

  The department did not consider risk when planning and performing monitoring activities. As such, risk was not formally defined and activities were not performed using a risk-based approach.

  Program Monitor Activities

  The department program monitors did not consider risk when performing monitoring duties. The program monitors used standard procedures to conduct the desk reviews and on-site visits. The desk review procedures did not assist the program monitor in assessing the relative risk of sub-recipients and in determining whether an on-site review was needed. In some cases, program monitors performed on-site reviews despite earlier desk review assessments that recommended not performing such reviews. We acknowledge that ARRA-CSBG on-site reviews were, in some cases, performed concurrently with required CSBG on-site reviews. However, desk-review procedures did not account for this factor in determining whether an on-site visit should be performed.

  The program monitors used standard procedures for on-site visits of sub-recipients. The program monitors did not perform additional or alternate testing based on prior assessments of sub-recipients' compliance with federal requirements.

  ASU Staff Member Activities

  The ASU did not consider risk in its review of single audit reports. It performed desk reviews of all sub-recipients using a standardized checklist. The reviews were limited to reviewing findings reported in single audits and following up with the agency to solicit a response regarding any corrective action taken. The ASU conducted three on-site visits directed by the department's executive management team.

  Management Activities

  Executive management stated that department staff members and line-level supervisors may informally approach executive management team members with monitoring issues. However, these monitoring updates may not allow the executive management to be informed on relevant monitoring issues.

The executive management team stated that it met on an informal basis to discuss monitoring issues raised to its attention. However, it did not provide documentation to support regular meetings to discuss risk and monitoring issues.

During the grant award period, the department had significant turnover among its program monitor staff, line-level supervisory staff, and executive management team members. Therefore, the informal processes in which it received, discussed, and reviewed issues may be insufficient to provide management with a regular and consistent understanding of trends or risk factors that may result in sub-recipient's noncompliance. Formalized processes in this regard would ensure that the department consistently communicates, discusses, and reviews monitoring issues.

- **The department's monitoring activities were inadequate.**

Monitoring activities performed by staff did not include inquiring into relevant areas of federal compliance. Further, staff members did not properly perform or complete monitoring work procedures. Consequently, monitoring results did not provide assurance as to whether sub-recipients were in compliance with federal guidelines.

Program monitors' procedures were inadequate and were not properly performed.

The program monitors used monitoring procedures that did not provide assurance as to whether sub-recipients complied with award requirements. The program monitors had three sets of procedures for conducting annual reviews. These procedures included the comprehensive desk review guide, the modified desk review guide, and the on-site monitoring tool. The comprehensive desk review guide was designed to be used for desk reviews. The modified desk review guide was designed as a planning tool to be completed by the program monitor prior to conducting an on-site review to assess whether the review would be needed. The on-site monitoring tool was created to evaluate sub-recipients' compliance with award requirements.

For purposes of the ARRA-CSBG program, management directed the program monitors to use the modified desk review guide for desk reviews in lieu of the comprehensive desk review procedures. The modified desk review guide's procedures were ineffective in assessing sub-recipients' compliance with federal grant award requirements. The program monitors completed this guide by reviewing information already received or compiled by other units within the department or by making limited inquiries of the sub-recipient. For example, the guide required that the program monitors determine whether the sub-recipient used subcontractors, the portion of grant funds that were spent, and whether the sub-recipient had requested any training and technical assistance.

The on-site monitoring tool used by program monitors did not provide assurance as to whether sub-recipients were in compliance with all federal compliance requirements. The tool provided the program monitors with a series of questions to ask sub-recipient staff in order to assess compliance with award requirements. Program monitors tested only areas that were included in the on-site monitoring tool. The monitoring tool did not incorporate many federal compliance requirements and did not consider the results of the modified desk review guide. For example, the monitoring tool did not include the OMB Circular A-133 requirement to review activities performed by grant recipients. In addition, the monitoring tool did not identify expenditure transactions that were tested. Therefore, we could not determine the types of costs tested.

We reviewed 14 on-site monitoring reports to evaluate the program monitoring report process. We noted several areas of concern, as follows:

Pre-desk review observations:

- In six of fourteen reports, pre-desk reviews were not on file (Sacramento Employment and Training Agency [Sacramento], Community Action of Ventura County [CAVC], Community Action Partnership of San Bernardino County [CAPSBC], County of San Diego Health and Human Services Agency [San Diego], Fresno County Economic Opportunities Commission [Fresno], and Los Angeles County Department of Public Social Services [Los Angeles County]).

- In five of the eight pre-desk review reports that were on file, an on-site review was performed, but no recommendation was made to perform one. Further, the pre-desk review did not consider whether an on-site review was pre-scheduled based on planned monitoring of non-ARRA programs (City of Los Angeles Community Development Department [Los Angeles], Community Action Partnership of San Luis Obispo County [CAPSLO], Northern California Indian Development Council [NCIDC], San Joaquin Department of Aging [San Joaquin], and Center for Employment Training [CET]).

On-site monitoring tool observations:

- In four of fourteen reports, monitoring tools were not on file (City of Oakland Department of Health Services [Oakland], San Diego, Fresno, and Los Angeles County).

- In the remaining ten reports that were on file:

  - The monitoring tool for all of the reports had analyst review comments that did not support the conclusion in the reports (Los Angeles, Sacramento, Los Angeles Native American Indian Commission [Los Angeles Indian], CAPSLO, NCIDC, San Joaquin, CAVC, CAPSBC, Economic Opportunity Council of San Francisco [EOCSF], and CET).

- The monitoring tool for six reports had incomplete sections (Sacramento, Los Angeles Indian, San Joaquin, CAPSBC, EOCSF, and CET).

- The monitoring tool for five of the reports did not include expenditure testing or was incomplete (Sacramento, Los Angeles Indian, NCIDC, San Joaquin, and CAPSBC).

- The monitoring tool for four reports had monitoring report observations that were not supported by a completed tool section (Los Angeles Indian, San Joaquin, CAPSBC, and EOCSF).

- The monitoring tool for two of the reports had monitoring tool observations that were not reported (NCIDC and EOCSF).

- The monitoring tool for one report had observations noted by the program monitor that were not included in the monitoring report (EOCSF).

Monitoring report observations:

- In all fourteen reports the report conclusion was not supported by the content of the report (Los Angeles, Sacramento, Los Angeles Indian, CAPSLO, NCIDC, San Joaquin, CAVC, CAPSBC, EOCSF, CET, Oakland, San Diego, Fresno, and Los Angeles County).

- In three of the fourteen reports, observations in the report body were not reported in the monitoring report conclusion (San Joaquin, CAPSBC, and Los Angeles County).

Follow-up actions taken:

- In three of the fourteen reports, recommendations made to sub-recipients in monitoring reports were not tracked in the reporting system (Fresno, San Diego, and CAVC).

Testing of the fourteen reports revealed that the program monitors did not maintain documentation to support monitoring activities, were inconsistent in following monitoring procedures, did not perform additional procedures or sample tests based on findings or observations noted during their monitoring, and did not always report all relevant observations. Further, some program monitor recommendations were not tracked in the reporting system.

The department required sub-recipients to submit closeout reports to report the final expenditure amounts and to identify specific types of expenditures incurred for the ARRA-CSBG program. We reviewed the closeout reports for nine sub-recipients to determine if the reviews were properly performed. We noted exceptions with six of the nine closeout reports, as follows:

- Transposition errors made by the sub-recipient were not detected in the CAPSLO closeout report.
- No expenditures were reported in the CABSC closeout report.
- Interest income returnable to the department was not detected in the Proteus, Inc. closeout report.
- The entire contract allocation was not spent in the CAVC closeout report.
- The closeout reports of EOCSF and CAPSBC were completed incorrectly.

In each of these instances, the program monitor reported that the sub-recipients spent the entire contract allocation and that the closeout was proper. However, our results show that the review was not properly performed to determine if the entire contract amounts were expended and if other information on the reports was correct.

The ASU reviews of single audit reports were not effective in assessing sub-recipients' compliance with federal requirements for awards administered by the department.

The ASU's reliance on reviews of single audit reports to assess sub-recipients' compliance with federal requirements was not effective. The tests performed by the single auditors may not have included a review of programs administered by the department and may not have been designed to detect areas of concern that would be considered material to department management. In addition, because the single auditors may have defined sub-recipient risk differently from the department, the ASU had no reliable basis on which to evaluate how risk was considered in the audit and whether the consideration was sufficient to ensure that proper procedures were performed.

The ASU also did not verify whether single auditors used the audit procedures contained in the supplemental audit guide that it developed. Therefore, the ASU had no assurance on the conclusions that would result from its use.

- **The department was inconsistent in its monitoring activities.**

During our review, we noted differences in how the department provided program guidance, formally defined staff roles, and assessed risk in regards to its monitoring activities.

Program monitors provided inconsistent guidance to sub-recipients.

As described earlier, the program monitors provided program and training support for CSBG and ARRA-CSBG sub-recipients. In reference to the formal training (webinars) provided to sub-recipients, the guidance provided by the department was helpful and accurate. However, we noted that for two of nine sub-recipients that we reviewed, department staff members provided inconsistent information and specific guidance that did not conform with its training to sub-recipients. These instances are as follows:

- Program monitors advised CAPSBC that services funded under ARRA-CSBG must stop by the end of the grant award period. Program monitors later advised CAPSBC that it could obligate funds for activities that occur after the award period. The CAPSBC used the latter understanding to purchase and distribute items after the award period.

- Program monitors advised Proteus, Inc. that no approval was needed to purchase equipment. Based on this guidance, Proteus, Inc. purchased equipment without seeking formal department approval. In a desk review performed after the grant award period, the program monitors noted that the department did not approve an equipment purchase. Subsequently, the department formally approved the purchase.

The ASU's role in the organization is unclear.

During the course of our review, we received conflicting information in regard to the roles and responsibilities of the ASU relative to monitoring activities. Further, we noted a number of inconsistencies in the ASU's formalized responsibilities and actual duties relative to the monitoring process. These inconsistencies relate to the ASU's function within the organization, and to the duties and responsibilities of its staff.

The department reported to the California Department of Finance that the ASU performed internal audit activities. The report indicates that the ASU reports to an appropriate level of management within the organization to function independently and cites that it complies with generally accepted government auditing standards in the performance of its audit work.

The department executive management indicated that though the ASU performs internal audit activities, it is not the department's internal audit agency. The department also stated that the ASU reports to a different level of management than indicated and that the ASU's work was not performed in accordance with generally accepted government auditing standards.

The job duty statements of the ASU staff identified the following internal audit function responsibilities:

- Provide guidance to management and staff in developing on-site monitoring tools and methods for sampling costs;
- Review departmental guidance to ensure that sub-recipients comply with all legal requirements that pertain to awards;
- Conduct regular training to management and staff to ensure that department staff has a baseline understanding of the OMB and financial management principles;
- Schedule and participate in annual field assignments, such as audit surveys, internal audits, comprehensive audits, audits of utility companies receiving department funds, and special studies;
- Prepare and maintain an audit manual; and
- Ensure that audits are tracked.

The ASU provided three training courses to department staff and sub-recipients, which consisted of a high-level overview on allowable award costs, cost allocation, and internal controls. However, as noted previously, the monitoring tools used by the program monitors did not consider many areas of federal compliance. Guidance provided by the ASU did not address the inadequacies in the monitoring tool. The ASU did not show that it performed reviews or audits identified in its duty statements other than three on-site visits during the grant award period. The ASU also did not maintain an audit manual, which would formally define its policies and procedures in regard to its duties in the department. While the ASU tracked its work activities in a computer database, this was not updated on a regular basis.

Removal of the high-risk designation for one sub-recipient was not supported by subsequent monitoring activities.

The department identified one of its sub-recipients as being high risk in October 2009. Reasons for the high-risk designation were identified in an independent accountant's report issued August 2009. Some of the reasons for high-risk designation included the sub-recipient's lack of a financial system to account for and report activities, and concerns regarding its cash flow and procurement practices. By late January 2010, the department removed the high risk designation. In June 2010, the department approved its agreement with the sub-recipient for the ARRA-CSBG program, effective January 1, 2010.

The department's ASU staff review performed in January 2011 noted that the sub-recipient implemented a financial system, but that staff was untrained on its use, the system lacked adequate controls, staff made erroneous journal entries, and that the system contained incorrect account balances. This report also reiterated prior cash flow concerns. In a report issued in September 2011, ASU staff noted that the sub-recipient continued to perform erroneous journal entries in its financial system and that its concerns over the sub-recipient's cash flow persist.

Recommendation

We recommend that the department take action to ensure that its monitoring activities detect and resolve instances of noncompliance with federal program requirements. More specifically, we recommend that the department take steps to address the following items:

- Risk should be formally defined and considered for all monitoring activities.
- The during-the-award monitoring should include areas of federal and award requirements.
- Departmental monitoring results should be discussed regularly.
- Monitoring policies and procedures should be revised to ensure that they fully incorporate federal award requirements and are based on an assessment of risk.
- Monitoring procedures should be properly performed and documented.
- Organizational functions engaged in monitoring should have clear roles and responsibilities. Further, this understanding should be documented and consistent with each sub-unit's mission, goals, objectives and staff duties.
- The department should ensure that it provides sub-recipients with consistent guidance and expectations concerning compliance with federal and award requirements.
- The department should ensure that the removal of any high-risk designation is supported by monitoring activities.

Department's Response

The department did not formally consider risk in its monitoring activities

The department agreed with the recommendations. The department states that it conducted risk assessments and that these led to on-site monitoring visits.

Program Monitoring Activities

The department performed desk reviews and on-site reviews to ensure sub-recipients' compliance with federal, state, and contract requirements, and not to assess risk.

The CSBG act requires that the department conduct on-site reviews of sub-recipients at least once every three years. For the CSBG program, department staff monitors sub-recipients more frequently and conducts desk reviews in addition to performing on-site reviews. Nine sub-recipients received an on-site review as a result of risk assessments performed by the department.

The department conducted two risk assessments and reviewed the results of risk assessments that were completed and self-certified by sub-recipients. The department performed a risk assessment during May 2009 after it received local plans from its sub-recipients. Another risk assessment was performed during August 2009. These assessments identified whether any non-CSD funded programs had unresolved findings or terminations, active legal proceedings, perceived barriers to administering the influx of CSBG ARRA dollars, programmatic and fiscal reporting issues, or previous CSBG monitoring and audit results. The department considered the risk assessments in the development of the monitoring schedule, resulting in nine additional agencies receiving an on-site review.

The program monitors reviewed the results of risk assessments that were completed by sub-recipients in accordance with Information Memorandum 112 (issued by the Office of Community Services). Program monitors referenced these risk assessments in its desk reviews and noted corrective actions taken.

The department performed modified desk reviews to plan for on-site monitoring visits; these reviews were not intended to determine whether an on-site monitoring visit is needed. Post-secondary reviews were specific to CSBG ARRA and were solely intended to ensure that funds were expended in a timely manner.

ASU Staff Member Activities

The ASU's single audit desk reviews help the department comply with federal requirements related to federal grant recipient monitoring. ASU reviewed the single audit reports for compliance with auditing standards, for corrective action on findings, and for funds owed the department resulting from unspent contract funds. Risk is an integral part of each single audit desk review.

Management Activities

Significant turnover occurred during the grant award period among the department's executive management, supervisory, and program monitoring staff. The department "formally implemented monthly monitoring meetings in 2011 to improve coordination and communication related to internal and external monitoring, oversight activities, audits, enforcement actions, and investigations of CSD sub-recipients." Key management personnel attended these meetings and such meetings included discussion of all active monitoring and auditing activities. Findings and corrective actions were discussed and implemented for follow-up discussion in subsequent meetings.

<u>SCO's Comment</u>

The department did not provide documentation to support that it performed risk assessments. It also did not demonstrate how it considered risk in its scheduling of on-site visits.

Program Monitoring Activities

The department performed desk reviews and on-site visits to assess compliance with federal requirements. However, as described in the report, many areas of federal compliance were not included.

The department states that for the CSBG program, it monitors sub-recipients more frequently than required and conducts both desk and on-site reviews. It also states that nine sub-recipients received an on-site review based on risk assessments it performed. We reviewed only the ARRA-CSBG program; therefore, we are unable to validate the department's statements regarding the CSBG program. In reference to the nine additional on-site reviews, the department provided no documentation to support that it performed risk assessments that led to additional on-site reviews.

The department provided no documentation supporting that "risk assessments were conducted for CSBG ARRA sub-recipients and that the outcome of these assessments were considered in the development of the 2010 on-site monitoring schedule." Further, the department did not show that a review of sub-recipient's self-assessment of risk, prepared in accordance with Information Memorandum 112, led to subsequent monitoring actions. Our observations regarding the lack of a risk-based approach are consistent with the conclusions reached by the California Bureau of State Audits and CPS Human Resource Services concerning the department's operations.

The program monitor's desk review procedures do not refer to the risk assessments performed by sub-recipients. The on-site visit procedures direct the program monitor to describe risks identified by the sub-recipients in its self-assessment of risk (Information Memorandum 112). However, the procedures do not direct the monitor to take further action based on any identified risks.

The department states that the modified desk review was not intended to determine if an on-site review was needed. However, the end of the desk review guide requires the program monitor to indicate whether an on-site review is recommended. Therefore, the department's statement is not supported by the guide.

In its response to the draft report, the department provided additional clarification and subsequent documentation on post-secondary reviews that it performs to track and report sub-recipient grant spending. Based on the additional information provided, we removed our prior comments related to the department's review process.

ASU Staff Member Activities

The ASU performs or oversees reviews of single audit reports for all sub-recipients, per federal requirements. Consequently, risk is not considered in selecting sub-recipients prior to reviewing single audit reports. The department did not show how the single audit report reviews led to additional monitoring activities.

Management Activities

As discussed in the finding, the department did not provide documentation to support regular meetings to discuss risk and monitoring issues during the grant award period.

Department's Response

The department's monitoring activities were inadequate

The department agreed with the recommendations. The department provided additional comments to clarify its monitoring activities.

Program Monitor Activities

California exceeds the federal requirements for conducting compliance reviews of CSBG sub-recipients. The department (1) attempted to perform on-site reviews more often than once every three years required by federal statutes and (2) conducted an annual desk review of any sub-recipient not scheduled for an on-site review in that year. The department exceeded the federal requirements by performing annual reviews that assess fiscal and programmatic performance annually. The annual reviews were sent to the sub-recipient and used to inform the on-site review the following year.

Management used the risk assessment tools it developed for ARRA-CSBG and the federal risk assessment under the Office of Community Services to help determine the sub-recipients that would receive an on-site review during the CSBG ARRA period. This led to most sub-recipients receiving an on-site review. Due to limited resources and lack of administrative funding to help administer ARRA-CSBG, "management decided to use the modified desk review to assess the performance of those sub-recipients that would not receive an on-site review."

The department performed additional procedures to monitor for compliance with ARRA-CSBG requirements. Findings that were specific to ARRA-CSBG were identified in the ARRA-CSBG monitoring report. Any findings related to administrative or programmatic functions were included in its monitoring reports for the CSBG program. The SCO did not review the CSBG ARRA and CSBG monitoring reports as one combined report when identifying whether on-site reviews should performed.

The modified desk review is not performed to determine if an on-site review should be conducted. It is designed to identify a material breach of its contracts with sub-recipients.

Post-secondary reviews were reported to management and were documented.

The department acknowledges that its review of the closeout report could be improved to ensure that errors on the reports are identified and corrected in a timely manner. The closeout report is not an official part of

its accounting records and errors found by the SCO did not impact the accurate reporting of expenditures in the department's accounting records or its reporting of grant expenditures to the Office of Community Services.

ASU Staff Member Activities

The department "complies with the federal Single Audit Act of 1984 (with amendments in 1996) and OMB Circular A-133 to meet federal requirements for all federal awards."

SCO's Comment

Program Monitor Activities

The federal monitoring requirements referenced by the department apply to the CSBG program. We did not review the department's compliance with these monitoring requirements, as these relate to the CSBG program only and not to ARRA-CSBG.

As previously noted, the department did not provide evidence to show that it used a risk-based approach to monitor sub-recipients.

The department states that the SCO should have reviewed both the CSBG and ARRA-CSBG monitoring reports, rather than the ARRA-CSBG reports only, for each sub-recipient when assessing the department's on-site monitoring reviews. The CSBG and ARRA-CSBG are separate and distinct federal programs, each with unique compliance requirements. Therefore, we believe that each report should stand alone.

As previously noted, the end of the modified desk review guide requires the program monitor to conclude whether an on-site review is recommended. Therefore, the department's assertion is not supported by the desk review guide. Further, based on procedures identified in the guide, the modified desk review guide is not limited to identifying material breaches of the sub-recipient's contract with the department.

As previously noted, based on the additional information provided by the department on post-secondary reviews, we removed our prior comments related to the department's review process.

We believe that a proper review of the closeout reports is important to identify potential discrepancies between the department's and its sub-recipients' accounting of grant expenditures.

ASU Staff Member Activities

As previously noted, we acknowledge that the review of single audit reports helped the department comply with its oversight responsibilities, per federal requirements. However, these reviews may not have detected areas of concern that would be considered material to department management. Further, staff did not verify whether the supplemental audit procedures that it developed were used by single auditors.

Department's Response

The department was inconsistent in its monitoring activities

The department agreed with the recommendations.

Program Monitor Activities

The department agreed with the findings. The department will provide training to its staff to ensure that it provides consistent guidance to its sub-recipients.

ASU Staff Member Activities

The ASU has the dual role of meeting the operational and program needs of a department that administers federal grants. Therefore, it performs external audit activities of the sub-recipients of federal grant funds and internal (per the duty statements categorization) audit activities. The department will review and document the roles of the ASU and update duty statements and organizational placement of the ASU as needed.

Management Activities

The department will ensure that any high-risk designation or removal is supported by monitoring activities.

SCO's Comment

None.

Process changes subsequent to the grant award period

The department indicated that it has taken steps that address some of our observations and conclusions. These steps mostly occurred outside of the grant award period. While we did not evaluate the effectiveness of these steps, we acknowledge that they may mitigate some of the concerns that we noted in our report.

During the grant award period, the department contracted with CPS Human Resource Services to document and review key processes and procedures. The contract was entered into by the department in response to issues noted in the Bureau of State Audits report dated February 2010, which identified process issues concerning the implementation of ARRA. The work was initiated by CPS in March 2010 and was expected to be complete within 12 to 18 months.

The assessment and review process was expedited by CPS, resulting in a report issued in November 2010, which is outside of the grant award period. The report acknowledges some of the issues noted in our review of ARRA-CSBG. These issues include, but are not limited to, the lack of a definition and consideration of risk in the performance of monitoring activities, and the lack of formalized processes and procedures. The latter may lead to activities duplicated by different departments and sub-units.

Although we did not extend procedures to review the items below, we acknowledge that the department has taken steps to implement changes to its existing processes. The majority of these items were implemented after the end of the grant period. Therefore, our observations are valid concerning the grant award period. The approximate timeframes in which the department implemented the changed processes are as follows:

- July 2010: Implemented SharePoint, an electronic system to track program monitor activities.
- August 2011: Held regular compliance meetings to discuss the results of all monitoring activities. Attendees included management over the program monitoring function, ASU staff, legal staff, and executive management.
- November 2011: Established formal whistleblower response procedures.
- December 2011: Hired an internal and external oversight coordinator whose duties include creating a report system that includes all monitoring activity results.

FINDING 2—Unallowable or inadequate documentation supporting salary and benefit costs

We performed testing of salary and benefit costs at nine non-profit sub-recipients and noted exceptions with five sub-recipients. We tested $1,517,180 in salary and benefit costs and questioned $541,120 because the reported expenditures do not comply with requirements described in Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*.

OMB Circular A-122 (Appendix B, 8.m.), requires that:

- Amounts charged to awards for salaries and wages are based on documented payrolls approved by a responsible official and supported by a personnel activity report.
- A personnel activity report (timesheet) is maintained for each employee (both professional and non-professional) whose compensation is charged, in whole or in part, directly to awards.
- The personnel activity reports reflect an after-the-fact determination of the actual activity of each employee. Budget estimates do not qualify as support.
- Each report must account for the total activity for which employees are compensated and must be signed by the individual employee or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee.

OMB Circular A-122 (Appendix B, 17.a.) states that the costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.

Also, OMB Circular A-122 (Appendix A, D.2.a.) states that the allocation of indirect costs may be accomplished by determining an indirect cost rate which is used to distribute indirect costs to individual awards. Furthermore, OMB Circular A-122 (Appendix A, D.2.d.) requires that the indirect cost rate developed should be applied to all awards at the organization.

The department's ARRA-CSBG contract, ARRA Exhibit B (2)–Administrative Expenses, states that administrative expenses charged by the sub-recipients are limited to 12% of the maximum amount of this agreement. ARRA Exhibit E (7)–Information in Support of Recovery Act Reporting, requires all contractors to maintain and to submit backup documentation such as timesheets and invoices upon request of the department or its designee. ARRA Exhibit A (7)(e)–ARRA Terms, Conditions, and Provisions, reiterates that all items in the agreement are subject to the requirements promulgated in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Based on our tests, we noted the following areas of noncompliance:

- Timesheets did not support reported activities.

  EOCSF: $300,000 in unsupported salary and benefit costs

- Timesheets were modified after employee submission to redistribute reported hours.

  CAPSBC: $88,256 in unsupported salary and benefit costs
  CABSC: $58,046 in unsupported salary and benefit costs

- Employees worked on unallowable administrative activities, charged as direct program costs.

  CABSC: $80,336 in unallowable salary and benefit costs

- The sub-recipient did not use its approved fringe-benefit rates to recover fringe-benefit costs. The sub-recipient has a federally negotiated indirect cost rate, prepared in accordance with OMB Circular A-122 (Title 2, *Code of Federal Regulations* [CFR], Part 230). This agreement includes specific rates for determining fringe-benefit costs:

  NCIDC: $14,482 in overstated fringe benefit costs

Recommendation

We recommend that sub-recipients:

- Document salaries and benefits in accordance with federal requirements and program restrictions.

- Observe agreements with federal agencies when charging expenses to grant awards.

Department's Response

The department agreed with the recommendation but disagreed with the interpretation of certain requirements relating to support of salaries and wages. The department cited, as an example, salary and wages costs that were questioned because the grant was not identified on the employee's timesheet. The employee indicated hours worked as relating to teaching activities.

The department states that CSBG funds may supplement other grant awards by paying for planning, coordination, capacity building, expansion, and enhancement of existing services and programs that already receive federal, state, local, or private funding; augmenting existing programs and services; and supporting the organizational infrastructure required to enhance and coordinate the multiple programs and resources that address poverty conditions in communities.

SCO's Comment

During our review, we noted several instances in which sub-recipients did not maintain adequate time records to support grant expenditures. OMB Circular A-122 (Appendix B, 8.m.1) states, in part, that the distribution of salaries and wages to awards must be supported by personnel activity reports (i.e., timesheets). Further, OMB Circular A-122 (Appendix A, A.4.a.-b.) states that costs should be allocated to particular cost objectives relative to benefits received and that such allocations should not be made to overcome funding deficiencies.

In regard to the department's comments on a teacher's time reporting, the timesheets did not support grant expenditures. This is relevant because the sub-recipient that employed the teacher charged a predetermined amount of costs each month to ARRA-CSBG to defray the costs of operating child care centers. The sub-recipient also received other federal and state funds to operate its child care centers. The teacher's timesheets did not allocate costs to grant awards or any other funding source. Consequently, there was no support for costs that were charged to the grant.

Concerning the department's general comments regarding the CSBG program, we agree that CSBG and ARRA-CSBG funds can be used for a variety of purposes. However, each is a separate federal program and should be accounted for in accordance with federal cost principles. Further, in accordance with OMB Circular A-122 (Appendix A, A.2.f), allowable costs must not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program.

FINDING 3—
Inadequate sub-recipient monitoring of partner agencies

We reviewed expenditures reported by the partner agencies for nine sub-recipients and found instances of noncompliance with federal requirements. We tested $1,618,504 in sub-recipient costs and questioned $924,249 because the sub-recipients did not adequately monitor partner agencies for compliance with the requirements described in OMB Circular A-122 (2 CFR Part 230), applicable to non-profit organizations, and OMB Circular A-87 (2 CFR Part 225), applicable to state, local, and tribal governments.

Title 45 CFR, section 92.40, requires grant recipients to monitor grant and subgrant supported activities to assure compliance with federal requirements. Further, the departments' Standard Agreement, Exhibit D (11), requires sub-recipients to perform periodic monitoring of partner agencies to ensure that activities delegated to partner agencies are in compliance with federal requirements.

OMB Circular A-122 (Appendix A, B.1.) and OMB Circular A-87 (Appendix A, E.1.) define direct costs as those that can be identified specifically with a particular final cost objective. The OMB circulars further state that costs identified specifically with awards are direct costs of the awards and are to be assigned directly to them and should not be assigned to other awards, either as direct or indirect costs. OMB Circular A-122 (Appendix A, A.2.f.) and OMB Circular A-87 (Appendix A,

C.1.h.) state that costs charged to federal awards must not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either current or prior periods.

OMB Circular A-122 (Appendix A, A.4.b.) and OMB Circular A-87 (Appendix A, C.3.c.) state that costs allocable to awards 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. Lastly, OMB Circular A-122 (Appendix A, A.2.g.) and OMB Circular A-87 (Appendix A, C.1.j.) require that costs be adequately documented.

OMB Circular A-122 (Appendix B, 8.m.) and OMB Circular A-87 (Appendix B, 8.h.) require that:

- Amounts charged to awards for salaries and wages are based on documented payrolls approved by a responsible official and supported by a personnel activity report.
- A personnel activity report (timesheet) is maintained for each employee (both professional and non-professional) whose compensation is charged, in whole or in part, directly to awards.
- The personnel activity reports reflect an after-the-fact determination of the actual activity of each employee. Budget estimates do not qualify as support.
- Each report must account for the total activity for which employees are compensated and must be signed by the individual employee or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee.

For salary and benefit costs, OMB Circular A-87 permits grantees to provide certifications of activities worked on in lieu of identifying programs on timesheets only if employees worked solely on one federal award or cost objective.

OMB Circular A-122 (Appendix B, 14.) states that the cost of meals related to social activities are unallowable.

The department's ARRA-CSBG contract, ARRA Exhibit A (4)–Separate Accounting, requires that grantees track and maintain ARRA-CSBG funds apart and separate from other revenue streams. It states that no part of these funds shall be co-mingled with any other funds. ARRA Exhibit A B(2) requires the grantee to monitor partner agency performance and ensure compliance with requirements. ARRA Exhibit A (C) states that when a grantee awards ARRA funds for an existing program, the ARRA funds must be distinguished from regular subawards under the existing program. ARRA Exhibit E (3)–Cost Sharing or Matching Contributions, states that grantees are not allowed to use ARRA funds for the purpose of cost sharing or matching. ARRA Exhibit E (7)–Information in Support of Recovery Act Reporting, requires all contractors to maintain and to submit back-up documentation such as timesheets and invoices upon request of the department or its designee. ARRA Exhibit A(7)(e)–ARRA Terms, Conditions, and Provisions, reiterates that all items in the agreement are subject to the requirements promulgated in OMB Circular A-133.

Based on our tests, we noted the following areas of noncompliance:

- Timesheets indicate salary and benefit costs incurred for other federal programs.

  EOCSF: $689,429 in unsupported salary and benefit costs

- No records were available to support reported costs.

  Proteus, Inc.: $77,128 in unsupported costs

- Timesheets do not indicate program worked on.

  CAPOC: $20,021 in unsupported salary and benefit costs
  Community Action Partnership of Kern (CAPKERN): $16,623 in unsupported salary and benefit costs
  Proteus, Inc.: $48,386 in unsupported salary and benefit costs

- Costs were not allocated to cost objectives.

  Proteus, Inc.: $72,452 in unsupported costs

- Costs were unallowable.

  CAPKERN: $210 in unallowable meals costs for social events

Recommendation

We recommend that sub-recipients monitor partner agencies for compliance with federal requirements.

Department's Response

The department agreed with the recommendation.

FINDING 4—
Costs incurred or liquidated outside the period of availability

We reviewed accounting records at each sub-recipient to determine if expenditures were properly incurred and liquidated in accordance with the period of availability of federal funds. We questioned $623,353 because the costs were incurred outside the award terms or payments were made outside the period of availability.

Title 45 CFR Part 74.28 specifies that when a funding period is specified for a federal grant, recipients may charge only allowable costs that result from obligations occurring during the funding period and any pre-award costs approved by the federal awarding agency. Also, 45 CFR Part 92.50 requires grantees to provide a final accounting for all costs incurred for grants. Further, grantees are required to refund immediately any balance of unobligated (unencumbered) cash that is not authorized to be retained for use on other grants.

Information Memorandum 109, issued by the Office of Community Services (OCS), states that if a grantee uses an accrual accounting system, "services must be provided on or before September 30, 2010, and liquidated on or before December 29, 2010." If the grantee is using a cash basis accounting system, "services must be provided on or before September 30, 2010 and final report is due on or before December 29, 2010."

The department's ARRA-CSBG contract, Exhibit B(1)(C), requires contractors to obligate its full contract allocation by September 30, 2010. ARRA Exhibit A (7)(e)—ARRA Terms, Conditions, and Provisions—reiterates that all items in the agreement are subject to the requirements promulgated in OMB Circular A-133.

For all reported expenditures that we tested, we verified whether sub-recipients were compliant with the period-of-availability requirements. We noted the following exceptions:

- Expenses were paid after the prescribed liquidation period.

  EOCSF: $502,429 in unallowable costs

- Services were rendered after the period of availability.

  CAPSBC: $120,486 in unallowable gift card purchases
  CAPKERN: $438 in unallowable printer maintenance costs

Recommendation

We recommend that sub-recipients incur expenditures within the period of availability and liquidate costs within the timeframes specified by federal requirements.

In the instances indicated, we encouraged the department and sub-recipients to work with the federal Department of Health and Human Services to discuss resolution of these matters. As an extension of the liquidation period was not granted or services were provided outside of the grant award period, the sub-recipients may be required to remit these amounts to the federal agency.

Department's Response

The department agreed with the recommendation and provided some clarifying remarks.

The department states that the original CSBG ARRA contract required that grant funds be spent by the end of the contract period. Consistent with federal guidance, the contract was amended in August 2010, to require that the full contract allocation was to be "obligated" by September 30, 2010, and expended by December 31, 2010.

SCO's Comment

The department's ARRA-CSBG contract with its sub-recipients was last amended on August 12, 2010. Concerning deadlines for using grant funds, Exhibit B(1)(c) from the contract states, "Contractor shall *obligate* [emphasis added] its full contract allocation on or before September 30, 2010."

We updated our report to reflect the language contained in the department's last amended contract. The contract does not address the latter portion of the department's comment regarding "expended by December 31, 2010." Information Memorandum 109 requires that expenditures should be liquidated on or before December 29, 2010.

FINDING 5—Unallowable equipment and operating expenses

We tested $795,330 in reported operating expenses and equipment expenditure amounts and questioned $37,585 because reported costs were not made in compliance with federal requirements.

OMB Circular A-122 (Appendix A, B.1.) defines direct costs as those that can be identified specifically with a particular final cost objective. It further states that costs identified specifically with awards are direct costs of the awards and are to be assigned directly to them and should not be assigned to other awards, either as direct or indirect costs. Further, this circular (Appendix A, A.4.) requires grantees to allocate costs to cost objectives in accordance with the relative benefits received.

OMB Circular A-122 (Appendix B, 15.b.(2)) requires grantees to obtain permission from the awarding agency prior to purchasing equipment exceeding $5,000. Further, this circular (Appendix B, 1.d.) states that allowable public relations costs are: (1) costs specifically required by the federal award, (2) costs of communicating the accomplishments that result from the performance of federal awards, and (3) costs of conducting general liaison with news media and government public-relations costs. Additionally, this circular (Appendix B, 1.f.(4)) specifically prohibits the costs of advertising and public relations designed solely to promote the non-profit organization.

The department's ARRA-CSBG contract, ARRA Exhibit A (7)(e)–ARRA Terms, Conditions, and Provisions, reiterates that all items in the agreement are subject to the requirements promulgated in OMB Circular A-133.

Based on our tests, we noted the following areas of noncompliance:

- Promotional and advertising costs are unallowable.

  CAPSBC: $14,614 in unallowable poster advertisements and movie theatre commercials to promote the agency
  CAPKERN: $3,956 in unallowable outreach costs

- General administrative costs that benefited the entire agency were directly allocated to the program.

  CAPKERN: $9,845 in overstated payroll system charges

- An equipment purchase was unapproved.

  Proteus, Inc.: $9,170 in unallowable costs

Recommendation

We recommend that reported expenditures are incurred within the terms of awards and are properly supported.

Department's Response

The department agreed with the recommendation.

FINDING 6—
Services provided to ineligible participants

We reviewed the eligibility verification processes of each sub-recipient. We found exceptions totaling $3,000 because client files were not adequately reviewed for compliance with program-eligibility requirements.

OMB Circular A-122 (Appendix A, A.2.b.) requires grantees to conform to any limitations or exclusions set forth in federal cost principles or in the award as to types of amount of cost items. Furthermore, this section states that costs should conform to restraints or requirements imposed by such factors as federal and state laws and regulations and terms and conditions of the award, and that costs should be adequately documented.

The department has issued CSBG ARRA No. 001, which defines client-eligibility income thresholds for the ARRA-CSBG program.

The department's ARRA-CSBG contract, ARRA Exhibit A (7)(e)–ARRA Terms, Conditions, and Provisions, reiterates that all items in the agreement are subject to the requirements promulgated in OMB Circular A-133.

We questioned $3,000 in services rendered by the EOCSF because the client files did not show that a proper review of eligibility was performed.

Recommendation

We recommend that the sub-recipient properly perform and document its assessment of participant eligibility before providing services.

Department's Response

The department agreed with the recommendation.

FINDING 7—
Reported expenditures not reconciled with accounting records and returnable interest not reported

We reviewed accounting records of each sub-recipient to determine if such records supported award expenditures and if returnable interest was reported. We questioned $24,488 because the accounting records did not support reported expenditures and returnable interest was not reported.

OMB Circular A-122 (Appendix A, A.2.g.) requires grantees to maintain adequate documentation to support costs. OMB Circular A-133 Compliance Supplement, Cash Management Section, requires nonprofit entities to return the excess of $250 in interest earned on federal fund balances.

The department's ARRA-CSBG contract, ARRA Exhibit E (7)–Information in Support of Recovery Act Reporting, requires all contractors to maintain and submit back-up documentation such as timesheets and invoices upon request of the department or its designee. ARRA Exhibit B (5) requires nonprofit grantees to return the excess of $250 earned on federal fund balances. ARRA Exhibit A (7)(e)–ARRA Terms, Conditions, and Provisions, reiterates that all items in the agreement are subject to the requirements promulgated in OMB Circular A-133.

For all reported expenditures that we tested, we verified whether sub-recipients were compliant with the period-of-availability requirements. We noted the following exceptions:

- Reported expenditures were not supported by accounting records.

  CAPOC: $24,272 in unsupported expenditures

- Interest income was unreturned.

  Proteus, Inc.: $466 in earned interest income resulted in an excess of $216 that was not returned

Recommendation

We recommend that sub-recipients:

- Perform regular reconciliations of award expenditures to their accounting records to ensure proper reporting of expenditures.
- Return the interest income in excess of $250 to the awarding agency.

Department's Response

The department agreed with the recommendation.

OTHER—
Department clarifying comments

The department suggested two report clarifications: that it did not allocate grant funds to limited purpose agencies and that states were required to provide 99% rather than 90% of grant funds to eligible entities.

SCO's Comment

We edited page 2 of the report to clarify that grant funds *may* be provided to limited purpose agencies and page 6 of the report regarding the portion of grant funds that states were required to distribute to sub-recipients.

Appendix—
Review Results by Sub-Recipient Agency

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Sub-Recipient: Community Action Partnership of Kern County (CAPKERN)
ARRA-Community Services Block Grant (ARRA-CSBG)

Background

Contract Number:	09F-5116
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract Period Reviewed:	July 1, 2009, through September 30, 2010
Amount Awarded:	$2,076,884
Reported Expenditures:	$2,076,977 [1]
Amount Tested:	$404,126
Amount Questioned:	$31,072

Findings and Questioned Costs

We tested transactions reported to the California Department of Community Services and Development. The Office of Community Services (OCS), a component of the Administration for Children and Families, which is an operating division of the federal Department of Health and Human Services (DHHS), provides guidance in implementing the program. The DHHS is the federal cognizant agency over ARRA-CSBG. We deemed costs as questionable for the entire transaction amount if one or more instances of non-compliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 28 payroll transactions totaling $74,965 of salary and benefit costs. We noted no exceptions.

Operating Expenses

We tested 88 transactions totaling $300,764 in operating expenses. We question $14,239 of the $300,764 due to the following instances of noncompliance with federal cost principles:

- A one-time set-up fee totaling $9,845 for a payroll system was incurred. As this system benefits the entire agency, the fee should have been allocated among all programs that benefit from the system. Instead, the full amount was charged to ARRA-CSBG program.
- A maintenance service agreement was entered into for a printer at the Shafter Youth Center. The service agreement spanned from March 1, 2010, to February 28, 2011. Per OCS Information Memorandum 109, recipients should receive all services funded by ARRA-CSBG by September 30, 2010. Therefore, we question a pro rata portion of the service agreement, which totaled $438.
- Two transactions for promotional items, totaling $3,956, were incurred. Federal cost principles prohibit the performance of advertising and public relations activities, unless specifically required by the award. Furthermore, the purchase of promotional items using federal funds is also prohibited.

[1] Reported expenditures exceeded awarded amounts because the CAPKERN earned $93 in interest income. Earned interest was obligated for program costs.

Subcontractor Services

We tested one subcontractor transaction totaling $28,397. This transaction consisted of 86 sub-transactions. These sub-transactions consisted of such costs as office supplies, payroll, meals, and other miscellaneous costs related to operating a summer youth program. We reviewed all 86 sub-transactions and question $16,833 of the $28,397 due to the following instances of noncompliance with federal costs principles:

- In 14 of 86 sub-transactions, the personnel activity report did not reflect total activities worked by the employee. Further, in 2 of the 14 sub-transactions, a timesheet for an employee tested did not indicate the time reporting period.
- In 12 of 86 sub-transactions, there were no personnel activity reports to support time worked by an employee.
- In 1 of 86 sub-transactions, meal expenses were claimed for unallowable social activities.

Period of Availability of Federal Funds

We reviewed $2,076,977 in reported expenditures to determine whether they were obligated and liquidated by the award deadline. We noted no exceptions.

Participant Eligibility

We reviewed the process for verifying participant eligibility for services provided under ARRA-CSBG. We found that the CAPKERN's process was adequate to ensure that eligible participants received services.

General Ledger

We reviewed the expenditures reported on the CAPKERN closeout report (Form CSD 925C) and compared it to the total of expenditure activity reports submitted to the department. We noted no differences.

Conclusion

We noted areas of non-compliance with federal cost principles. These issues indicate that CAPKERN did not properly allocate program costs that it incurred. They also indicate that CAPKERN did not monitor its subcontractors to ensure compliance with federal cost principles.

Recommendation

We recommend that CAPKERN takes action to ensure that it, and its subcontractors, comply with federal cost principles and program guidelines. More specifically, we recommend that CAPKERN takes steps to ensure that:

- Reported expenditures are incurred for specific federal programs or are properly allocated amongst other programs that receive benefits from the expenditures.
- Subcontractor activities are monitored to ensure compliance with program requirements, federal requirements, and other regulatory guidelines.

Sub-Recipient's Response

The sub-recipient acknowledged the issues noted in the review results. For two of the issues, the sub-recipient concurred with the finding and provided information on the corrective actions taken. For three observations, the sub-recipient disagrees with the review results. Refer to the Attachment for the sub-recipient's complete response.

SCO's Comments

A one-time set-up fee totaling $9,845 for a payroll system was incurred. As this system benefits the entire agency, the fee should have been allocated among all programs that benefit from the system. Instead, the full amount was charged to the ARRA-CSBG program.

The sub-recipient asserts that a one-time set-up fee for a payroll system is allowable under the ARRA-CSBG program. The sub-recipient reasons that the ARRA-CSBG program operates under the same guidelines as the CSBG program and that those guidelines provide recipients with discretion over how funds may be used.

We disagree and maintain that federal cost principles (OMB Circular A-122 and OMB Circular A-87) define allowable costs and the allocation of such costs to federal awards. Allowable costs include those that are reasonable for the performance of the award and are adequately documented. Costs incurred against federal awards are allocated in accordance with the relative benefits received. A cost is allocable to a federal award under the following types of conditions: it is incurred specifically for the award; it benefits both the award and other work and can be distributed in reasonable proportion to benefits received; and it is necessary to the overall operation of the organization, although a direct relationship to a particular cost objective cannot be shown.

We acknowledge that the CSBG and ARRA-CSBG funds may be used to support activities administered by the sub-recipient. However, the reported payroll system fee was not incurred to support specific activities. The setup fee was incurred for a payroll system, which is a general administrative item that benefits the entire organization. Consequently, the fee amount should have been allocated amongst other programs (i.e., federal, state, local, etc.) in proportion to benefits received.

Two transactions for promotional items, totaling $3,956, were incurred. Federal cost principles prohibit the purchase of promotional items using federal funds.

Federal cost principles define public relations costs as those incurred to maintain and promote the professional image of the organization. Allowable public relations costs include the following: those costs specifically required by the federal award, communication with the press, and general liaison with news media.

The sub-recipient states that the use of the purchased items (pens and magnets with the agency's name and number for the program) were outreach items used to inform clients of services offered by the sub-recipient, not to market the agency. Outreach to inform clients of the services offered is not a requirement of the federal award; therefore, it is not allowable under federal cost principles.

Personnel activity reports did not reflect total activities worked by the employee. Timesheets for employees tested did not indicate the time reporting period.

The sub-recipient states that subcontractor employees worked only on ARRA-CSBG-funded activities. Consequently, the sub-recipient asserts that timesheets did not need to show activities performed by employees. The sub-recipient also states that even though the reporting period for a timesheet was omitted, the reporting period could still be determined by reviewing the date the timesheet was signed.

We disagree, and maintain that federal cost principles require grantees to maintain documentation that reflects the distribution of hours charged to federal awards. The federal cost principles also require grantees to prepare such reports at least monthly and that they must coincide with one or more pay periods. In our review of the timesheets in question, employees did not document the programs/activities charged. Also, we noted an instance in which the reporting period was not documented on the timesheet. Without the indication of reporting period, we cannot determine to which period the timesheet pertained.

Meal expenses were claimed for unallowable social activities.

The sub-recipient states that funds were used to purchase food for a year-end event for a summer youth program. The purpose of the event was to promote social activities. However, federal cost principles prohibit the purchase of food for such purposes. Therefore, the meal expenses are not allowable.

Sub-Recipient: Community Action Partnership of Orange County (CAPOC)
ARRA-Community Services Block Grant (ARRA-CSBG)

Background

Contract Number:	09F-5132
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract Period Reviewed:	July 1, 2009, through September 30, 2010
Amount Awarded:	$4,590,339
Reported Expenditures:	$4,590,339 [1]
Amount Tested:	$559,873
Amount Questioned:	$44,293

Findings and Questioned Costs

We tested transactions reported to the California Department of Community Services and Development. The Office of Community Services (OCS), a component of the Administration for Children and Families, which is an operating division of the federal Department of Health and Human Services (DHHS), provides guidance in implementing the program. The DHHS is the federal cognizant agency over ARRA-CSBG. We deemed costs as questionable for the entire transaction amount if one or more instances of non-compliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 16 payroll transactions totaling $62,719 in salary and benefit costs. We noted no exceptions.

Subcontractor Services

We tested 68 subcontractor transactions totaling $451,947. Each subcontractor transaction consisted of such expenses as payroll, office supplies, and other costs. We questioned $20,021 due to the following instances of noncompliance with federal cost principles:

- In 3 of 68 transactions, timesheets did not support time worked on the ARRA-CSBG program. Further, in two of the three transactions, we noted the following:
  - In one transaction, we reviewed two timesheets that were supplemented with timecard attachments. The attachments showed additional hours worked by employees for the reporting period. However, neither the timesheets nor attachments indicated which programs the employee worked on. Further, none of the time documentation represented the total activity that the employee worked on during the reporting period.
  - In one transaction, the timesheets contained a field for identifying program codes that should have been used to assign time worked to programs. However, this field was not consistently used.

[1] Award expenditures submitted to the department per the expenditure activity reports system totaled $4,601,351. However, in its closeout report, the CAPOC reported $4,590,339 in expenditures. Reimbursement for ARRA-CSBG expenditures was limited to the maximum amount of the award. Therefore, no reimbursement in excess of the award was received by the CAPOC.

Participant Eligibility

We tested 24 participants receiving services under ARRA-CSBG-funded programs. We noted no exceptions.

General Ledger

We reviewed the expenditures reported on CAPOC's closeout report and compared it to the total of EARS reports submitted to the department and to the accounting records maintained by CAPOC. We found several differences between each reviewed item.

CAPOC submitted a total of $4,601,351 in expenditures for reimbursement from the department. On its closeout report to the department, CAPOC reported that it incurred $4,590,339 in expenditures. CAPOC's accounting records support $4,566,067 in expenditures. Neither the expenditures submitted for reimbursement during the course of the award period nor at closeout were supported by accounting records. As the amount of expenditures submitted for reimbursement exceeded the award amount, CAPOC was reimbursed by the department only up to the award amount, which was $4,590,339. The amount of expenditures used to support its reported expenditures was $4,566,067, which was $24,272 less than what the accounting records support. As actual expenditures do not support expenditures charged to the grant, we question the unsupported amount of $24,272.

Conclusion

We noted instances of noncompliance with federal cost principles and grant requirements. We noted that accounting records did not fully support reported grant expenditures. Further, we noted instances that indicate subcontractors were not properly monitored to ensure compliance with federal cost principles.

Recommendation

We recommend that CAPOC take action to ensure that it, and its subcontractors, comply with federal cost principles and grant requirements. More specifically, we recommend that CAPOC take steps to ensure that:

- Subcontractor activities are monitored to ensure compliance with grant requirements, federal cost principles, and other regulatory guidelines.
- Reconciliations are performed on a regular basis to verify that reported grant expenditures are accurate and supported by accounting records.

Sub-Recipient's Response

The sub-recipient agreed with the review issues and has identified corrective actions taken as a result. Refer to the Attachment for the sub-recipient's complete response.

Sub-Recipient: Community Action Partnership of San Bernardino County (CAPSBC)
ARRA-Community Services Block Grant (ARRA-CSBG)

Background

Contract Number:	09F-5137
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract Period Reviewed:	July 1, 2009, through September 30, 2010
Amount Awarded:	$4,176,902
Reported Expenditures:	$4,177,120 [1]
Amount Tested:	$561,722
Amount Questioned:	$223,356

Findings and Questioned Costs

We tested transactions reported to the California Department of Community Services and Development. The Office of Community Services (OCS), a component of the Administration for Children and Families, which is an operating division of the Federal Department of Health and Human Services (DHHS), provides guidance in implementing the program. The DHHS is the federal cognizant agency over ARRA-CSBG. We deemed costs as questionable for the entire transaction amount if one or more instances of non-compliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 60 payroll transactions totaling $102,975 of salary and benefit costs. We questioned $88,256 due to the following instances of noncompliance with federal cost principles:

- In 42 of 60 transactions, the employees charged time to programs other than ARRA-CSBG. Examples of other programs that were charged include the Inland Empire Individual Development Account (IEIDA), Community Services Block Grant (CSBG), and the Homeless Prevention and the Rapid Re-Housing Program (HPRP); each refers to separate federal programs. Although these costs were incurred for other programs, CAPSBC reported them as ARRA-CSBG program costs.

- In 18 of 60 transactions, the same time-allocation code was used to assign costs from separate programs. For example, on several timesheets, the code 08-05 was used to assign costs from the ARRA-CSBG, HPRP, and Children and Family Services/Promoting Safe and Stable Families programs. However, the code 08-05 corresponds to an account in CAPSBC's accounting system that tracks ARRA-CSBG costs only. We questioned the time recorded on these timesheets because costs for different programs were charged under the same time allocation code.

- In 11 of 60 transactions, time allocation codes or project name descriptions on timesheets were modified to classify reported hours as ARRA-CSBG. We found that the project codes listed on the timesheets did not agree with project descriptions. Subsequently, the project codes or descriptions were modified to indicate ARRA-CSBG. CAPSBC staff members could not clearly explain their procedures for reviewing the modifications nor could they explain whether such modifications were approved.

[1] Reported expenditures exceeded awarded amounts because the CAPSBC reported $218 in earned interest income that was obligated for program costs. However, the department did not reimburse CAPSBC for expenditures that exceeded the award amount.

- In 3 of 60 transactions, the time allocation of reported hours does not agree with the record of attendance.
- In 1 of 60 transactions, no program was charged.

Operating Expenses

We tested three transactions totaling $17,191 in operating expenses. We questioned $14,614 because the agency charged poster advertisements and movie theater commercials designed to promote the organization, which is unallowable per federal cost principles.

Subcontractor Services

We tested 31 transactions totaling $144,970. We noted no exceptions.

Equipment

We tested one transaction totaling $107,507. We noted no exceptions.

Other Costs

We tested 15 transactions totaling $178,588. Of the amount tested, we reviewed $167,985 in gift card purchases to determine if they were allowable in accordance with grant requirements. We questioned $120,486 because we found instances in which gift cards were distributed after the grant period cutoff, gift cards were purchased after the grant period cutoff, or that CAPSBC did not support when gift cards were distributed.

Participant Eligibility

We tested 10 participants receiving services under ARRA-CSBG funded programs. The value of the services they received totaled $10,491. We noted no exceptions.

General Ledger

We reviewed the expenditures reported on CAPSBC's closeout report and compared it to the total of expenditure activity reports submitted to the department, to the accounting records maintained by the CAPSBC, and to the awarded amounts. We noted that CAPSBC reported $218 in expenditures, which exceeded the award amount. This amount represents earned interest income on federal fund balances, which CAPSBC applied towards grant expenditures. Earned interest income up to $250 may be retained by the recipient. Therefore, no exceptions are noted on this amount.

Conclusion

We noted areas of non-compliance with federal cost principles and grant requirements. Salary and benefit costs were not properly supported by time documentation. Unallowable advertising costs were reported. Lastly, the CAPSBC provided services to clients beyond the grant period for the federal award, purchased gift cards after the grant period cutoff, and could not support the date when some gift cards were distributed.

Recommendation

We recommend that CAPSBC takes action to ensure that it complies with federal cost principles and grant requirements. More specifically, we recommend that the CAPSBC takes steps to ensure that:

- Reported salary and benefit costs are based on actual time worked on a program and are supported by proper time documentation.
- Time documentation identifies programs consistently and should agree with accounting system records.
- Grant expenditures are reviewed for compliance with federal cost principles.
- Services are provided in accordance with grant requirements.

Concerning the observations on gift cards, we recommend that CAPSBC contact the department and DHHS to discuss resolution of this matter. As the gift cards were distributed after the grant period cutoff or distribution date could not be determined, the CAPSBC may be required to remit the amounts paid for these gift cards.

Sub-Recipient's Response

The sub-recipient acknowledged the issues noted in the review results. For some of the issues, the sub-recipient concurred with the finding and provided information on the corrective actions taken. For four observations, the sub-recipient disagreed with the review results. Refer to the Attachment for the sub-recipient's complete response.

SCO's Comments

Sub-recipient timesheets for ARRA-CSBG indicate other programs.

The sub-recipient asserts that, despite indicating other programs on timesheets, employees hired under the ARRA-CSBG contract had their time automatically charged to ARRA-CSBG program. To correct this issue, the sub-recipient states that it will provide training to employees and supervisors on proper timesheet procedures.

The timesheets provide the basis for the allocation of costs to federal awards, not predetermined system allocations. Federal cost principles require personnel activity reports in support of salaries and wages charged to awards. The personnel activity report must reflect an after-the-fact determination of actual activity, account for total activity for which employees are compensated, and be signed by the employee or supervisor. Budget estimates do not qualify as support.

The sub-recipient also asserts that the IEIDA program activities were funded by the ARRA-CSBG program and, consequently, were allowable activities under the ARRA-CSBG program.

In regard to the latter comment, we disagree that timesheet allocations to other federal programs provide a basis to charge employee costs to ARRA-CSBG program. As previously mentioned, federal cost principles require that personnel activity supports support activity charged to awards. In these cases, the timesheets indicated that a separate program should be charged. The IEIDA program was created using funds received under the Assets for Independence Demonstration Program (AFI), a separate federal program. As a separate program, the AFI program has its own requirements for participant eligibility, allowable use of grant funds, and any matching requirements. The AFI program contains no provisions that would allow grant recipients to use other federal funds to match costs incurred to operate AFI-funded activities.

Same time allocation codes used to identify different programs.

The sub-recipient states that, in reference to the timesheet codes, it did not charge costs of other programs to the ARRA-CSBG program. Rather, the sub-recipient asserts that account codes contained additional number strings to specify separate programs charged.

We disagree, and maintain that in the majority of instances indicated, the timesheets had additional concerns that overlap our other observations. Our review of time records disclosed inconsistencies in how program costs were identified. First, none of the time records showed the full account string as the program code. The timesheets indicate only a four digit code and the code is the same for a number of different programs. In several instances, the program description and program codes used were inconsistent from period to period. We believe that this lack of clarity and consistency may adversely affect staff member's ability to properly complete timesheets.

Unallowable advertising costs were reported.

The sub-recipient asserts that reported poster and movie theater advertisements are allowable public relations costs.

We disagree, and maintain that federal cost principles (OMB Circulars A-122 and A-87) define eligible advertising and public relations costs. Advertising costs are the costs of advertising media that is used for the following purposes: recruit personnel required for performance of the federal award, procure goods and services, advertise for the disposal of scrap and surplus materials, and to meet other specific requirements as specified in the federal award. Public relations costs are those incurred to maintain and promote the professional image of the organization. Allowable public relations costs include: those costs specifically required by the federal award, communication with the press, and general liaison with news media.

Based on the aforementioned definitions, we determined that the sub-recipient charged advertising costs to the award. These costs were incurred to advertise the sub-recipient's services to the general public, which federal cost principles prohibit. Further, advertising the services rendered by grant recipients is not a specific requirement of the ARRA-CSBG program and contract with the department. Therefore, the two reported cost items are unallowable. Although the charges were not public relations costs, it is worth noting that the costs would still not be allowable if the costs were considered as such.

Gift cards were not purchased for use during the grant period.

The sub-recipient argues that the funds to purchase the gift cards were obligated and liquidated within appropriate timelines, with the expectation that the distribution of the cards would extend beyond the grant period. Further, it asserts that all the gift cards were used for the benefit of clients qualified under the guidelines of ARRA-CSBG. The sub-recipient also asserts that this situation was known to the department.

While we agree that the sub-recipient obligated and liquidated the purchase of the gift cards within the appropriate timeframe, we disagree with the continuance of services beyond the grant award period. The sub-recipient provided services beyond the specified end of the program. Further and somewhat more problematic are participant eligibility requirements associated with the ARRA-CSBG program. For ARRA-CSBG, the participant eligibility to receive services was increased to 200% of poverty level. The change in eligibility requirements was effective only for the grant award period and was not extended beyond September 30, 2010. We encourage the agency to work with the department and DHHS to resolve this issue.

Sub-Recipient: Economic Opportunity Council of San Francisco (EOCSF)
ARRA-Community Services Block Grant (ARRA-CSBG)

Background

Contract Number:	09F-5139
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract Period Reviewed:	January 1, 2010, through September 30, 2010
Amount Awarded:	$1,373,146
Reported Expenditures:	$1,373,146
Amount Tested:	$996,429
Amount Questioned:	$992,429

Findings and Questioned Costs

We tested transactions reported to the California Department of Community Services and Development. The Office of Community Services (OCS), a component of the Administration for Children and Families, which is an operating division of the federal Department of Health and Human Services (DHHS), provides guidance in implementing the program. The DHHS is the federal cognizant agency over ARRA-CSBG. We deemed costs as questionable for the entire transaction amount if one or more instances of non-compliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested $300,000 in salary and benefit costs that were related to operating a childcare program. We questioned all $300,000 due to the following instances of noncompliance with federal cost principles:

- EOCSF transferred a predetermined budget allocation each month from the ARRA-CSBG fund to defray the costs of the childcare program. The allocation was not based on actual costs identified by staff on personal activity reports. The transfers totaled $300,000.
- We reviewed 117 employee timesheets for the childcare program, which totaled $180,961, or 60% of reported costs. None of the timesheets indicated which project the employee worked on.
- We found that the childcare program was funded by multiple revenue sources and that EOCSF did not identify how costs were allocated between each revenue source.

Subcontractor Services and Period of Availability of Federal Funds

We tested $689,429 in payments made by EOCSF to the Office of Economic and Workforce Development (OEWD), a component of the City of San Francisco. EOCSF entered into agreement with the OEWD to perform activities related to the ARRA-CSBG program. In turn, the OEWD subcontracted with various partner agencies to provide services under the Reconnecting All through Multiple Pathways–San Francisco (RAMP-SF) and City Build programs.

We questioned all $689,429 in payments made from EOCSF to the OEWD due to the following instances of noncompliance with federal cost principles and other applicable requirements:

1. Subcontractor Agreements with Partner Agencies

   We reviewed all five subcontractor agreements entered into between the OEWD and various partner agencies. Costs incurred by the partner agencies under these agreements were billed to the OEWD. These costs were later included in billings submitted by the OEWD to EOCSF, per their contract. The agreements were entered into with the following partner agencies:

   - Goodwill Industries
   - Mission Hiring Hall
   - City College of San Francisco
   - Japanese Community Youth Council (two contracts)

   In all five subcontracts, we found that the activities (RAMP-SF and City Build projects) were identified as performed for non-ARRA-CSBG programs, including the Federal Workforce Investment Act (WIA) Adult Activities program, WIA Youth Activities program, and WIA Dislocated Workers program.

2. Compliance with Federal Requirements

   We reviewed ten invoices submitted by the OEWD to EOCSF for payment. The total amount paid on these invoices totaled $295,264, or 43% of costs paid by EOCSF to the OEWD. We found that all ten invoices indicated costs incurred under WIA programs.

   Within the ten invoices, we tested a total of 45 partner-agency transactions, which totaled $72,747, or 25% of the amounts paid by EOCSF to the OEWD under their agreement. The results of the tests are as follows:

   - None of the 45 transactions indicated that costs were incurred for ARRA-CSBG.
   - All 45 transactions indicated allocations to general fund revenue sources, which were used to pay the excess of costs incurred under WIA programs.
   - In 36 of 45 transactions, costs were identified as WIA programs.
   - In 28 of 45 transactions, documentation was inadequate to fully validate the claimed expenditures.

3. Post-Liquidation Payments

   Of the $689,429 in payments made by EOCSF to the OEWD, we found that $502,429 in payments were past the payment liquidation date. The OCS has issued Information Memorandum (IM) 109 and IM 122, which require recipients to liquidate all obligations by December 29, 2010, unless an extension is granted. No extension was requested nor granted.

Participant Eligibility

We tested 49 participants and found ten instances of noncompliance with ARRA-CSBG program requirements. We questioned $3,000 in assistance provided due to the following areas of noncompliance:

- In four of ten intake forms, participants exceeded federal poverty level guidelines.
- In three of ten intake forms, participants did not disclose their income levels.
- In three of ten intake forms, there was no evidence that a review of income was performed.

General Ledger

We reviewed the expenditures reported on EOCSF's closeout report (Form CSD 925C) and compared it to the total of expenditure activity reports submitted to the department. We noted no differences.

Conclusion

We noted areas of non-compliance with federal cost principles, participant eligibility, liquidation of funds, and period of availability of federal funds. These issues showed a lack of oversight by EOCSF over subcontractor activities. They also show a lack of understanding of program requirements, federal cost principles over determining and supporting allowable costs, and regulatory requirements over the proper liquidation of program expenditures.

Recommendation

We recommend that the EOCSF take action to ensure that it, and its partner agencies, comply with federal cost principles and program guidelines. More specifically, we recommend that the EOCSF take steps to ensure that:

- Required time documentation is completed and maintained for programs.
- Subcontractor activities are monitored to ensure compliance with program requirements, federal requirements, and other regulatory guidelines.
- Participant eligibility is properly verified before services are rendered.

Concerning the post-liquidation payments made to subcontractors, we recommend that EOCSF contact the department and the DHHS to discuss resolution of this matter. As an extension to make payments beyond the liquidation period was not granted, EOCSF may be required to remit the paid amounts.

Sub-Recipient's Response

The sub-recipient acknowledged the issues noted in the review results. For some of the issues, the sub-recipient concurred with the finding and provided information on the corrective actions taken. For other observations, the sub-recipient disagreed with the review results. The sub-recipient's response includes comments from one of its subcontractors. The sub-recipient states that it concurs with the subcontractor's comments and has incorporated them in its response. Refer to the Attachment for the sub-recipient's complete response.

SCO's Comments

The sub-recipient entered into agreements with subcontractors, who performed grant-related activities. However, subcontractor invoices and supporting documentation indicate that the sub-recipient used ARRA-CSBG moneys to pay for costs incurred in other federal programs. These other programs were the Federal Workforce Investment Act (WIA) Adult Activities program, WIA Youth Activities program, and WIA Dislocated Workers program.

The sub-recipient and subcontractor assert that the mere identification of costs as another federal program does not render them ineligible under ARRA-CSBG. The subcontractor also expressed a concern relating to the audit—specifically, our focus on the sub-recipient's operations.

We requested documentation to support subcontractor costs reported by the sub-recipient. The sub-recipient had no records to support reported costs. Subsequently, we contacted the subcontractor and requested documentation to support the amounts billed to the sub-recipient. The documentation that we received indicates that the costs were incurred for other federal programs.

Federal cost principles (OMB Circular A-122 and OMB Circular A-87) require grantees to identify and allocate costs to cost objectives in proportion to benefits received. The sub-recipient did not identify how costs billed by a subcontractor were identified to cost objectives that related to programs it administered. However, the documentation provided by the subcontractor showed that the costs were incurred relative to other federal programs.

Federal cost principles in the general principles (OMB Circular A-122) or basic guidelines (OMB Circular A-87) also require that for costs to be allocable to an award, they must not be included as a cost or used to meet cost-sharing or matching requirements of any other federal award or financed program. Again, the support provided by the subcontractor showed that the costs were incurred relative to other federal programs and did not indicate ARRA-CSBG.

Regarding the subcontractor concerns that it was not provided opportunity to adequately respond to our review observations, the focus of our review was not the subcontractor. We reviewed the sub-recipient's overall administration of the ARRA-CSBG award. Such a review includes an understanding of its procedures for reviewing costs before submitting them to the department for reimbursement. In this case, we found that the sub-recipient had no documentation to support costs that it submitted to the department. Therefore, we concluded that the sub-recipient did not adequately review subcontractor costs to determine if they were allowable for the grant. In accordance with grant award requirements and the contract with the department, the monitoring of subcontractors is the sub-recipient's responsibility.

We questioned assistance services rendered by the sub-recipient because participant eligibility was not properly determined.

The sub-recipient provided comments and additional documentation concerning five of the ten exceptions noted in the review of participant eligibility. In its comments, the sub-recipient acknowledges some of the issues noted in our review. However, based on our review of the additional information, we maintain that our observations concerning eligibility forms remain valid. Therefore, the finding remains unchanged.

Sub-Recipient: Community Action Partnership of San Luis Obispo County (CAPSLO) ARRA-Community Services Block Grant (ARRA-CSBG)

Background

Contract Number:	09F-5141
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract Period Reviewed:	July 1, 2009, through September 30, 2010
Amount Awarded:	$472,392
Reported Expenditures:	$472,392
Amount Tested:	$74,349
Amount Questioned:	$0

Findings and Questioned Costs

We tested transactions reported to the California Department of Community Services and Development. The Office of Community Services (OCS), a component of the Administration for Children and Families, which is an operating division of the federal Department of Health and Human Services (DHHS), provides guidance in implementing the program. The DHHS is the federal cognizant agency over ARRA-CSBG. We deemed costs as questionable for the entire transaction amount if one or more instances of non-compliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 47 transactions totaling $34,293 in salary and benefit costs. We noted no exceptions.

Operating Expenses

We tested 20 transactions totaling $5,056 in operating expenses. We noted no exceptions.

Subcontractor Services

We tested two transactions totaling $35,000 in subcontractor services. We noted no exceptions.

Participant Eligibility

We tested six participants receiving services under ARRA-CSBG-funded programs. We noted no exceptions.

General Ledger

We reviewed the expenditures reported on the CAPSLO closeout report (Form CSD 925C) and compared it to the total of expenditure activity reports (EARS) submitted to the department and to CAPSLO's accounting records. We noted that CAPSLO's accounting records and submitted EARS reports totaled $472,392. However, CAPSLO erroneously reported $427,392 in expenditures in its closeout report, which is $45,000 less than the costs that it reported via the EARS system and is supported by accounting records. Therefore, CAPSLO understated its award expenditures on the closeout report. While the department did not take any action to reduce the amount of reimbursement given to CAPSLO, CAPSLO should have ensured that it accurately reported expenditure information to the department.

Conclusion

We noted no incidences of noncompliance with federal cost principles. We did note that CAPSLO's final reporting of expenditures did not reconcile with its submitted EARS reports and its accounting records.

Recommendation

We recommend that CAPSLO work with the department to ensure that its reporting of expenditures is accurate.

Sub-Recipient's Response

The sub-recipient agreed with the review issues and has identified corrective actions taken as a result. Refer to the Attachment for the sub-recipient's complete response.

Sub-Recipient: Community Action Board of Santa Cruz County (CABSC)
ARRA-Community Services Block Grant (ARRA-CSBG)

Background

Contract Number:	09F-5145
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract Period Reviewed:	July 1, 2009, through September 30, 2010
Amount Awarded:	$465,676
Reported Expenditures:	$465,676
Amount Tested:	$166,588
Amount Questioned:	$138,382

Findings and Questioned Costs

We tested transactions reported to the California Department of Community Services and Development. The Office of Community Services (OCS), a component of the Administration for Children and Families, which is an operating division of the federal Department of Health and Human Services (DHHS), provides guidance in implementing the program. The DHHS is the federal cognizant agency over ARRA-CSBG. We deemed costs as questionable for the entire transaction amount if one or more instances of non-compliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 36 payroll transactions totaling $58,046 in salary and benefit costs. We questioned all $58,046 due to the following instances of non compliance with federal cost principles:

- In 34 of 36 transactions, the timesheets were modified to show program codes and hours charged to programs other than those that were originally shown. Further, there was no sign that these modifications were approved by either the employee or by management.
- In 27 of 36 transactions, the employee did not allocate his or her time to a program charge code.
- In 21 of 36 transactions, total time charged to programs did not agree with the time used for determining employee compensation.
- In 1 of 36 transactions, a budget allocation of the employee's time was used to report hours worked.

In our review of salary and benefit costs, we found that three employees charged their time under the program code "Special Projects." This program was not approved in CABSC's local plan. We spoke with the CABSC staff and reviewed employee job duty statements to understand the work performed by these employees. Based on our review, we concluded that:

- Two of the three employees performed job duties that related primarily to program administration. CABSC indicates that the employees performed programmatic duties in other activities. However, CABSC did not charge the costs of programmatic duties to the appropriate program code. Instead, the salary and benefit costs were charged under the Special Projects code. Work performed by these employees was primarily administrative in nature and programmatic duties were not charged to an appropriate and approved activity. Therefore, we question the salary and benefit costs charged by these employees, which totaled $49,789.
- One of the three employees performed fundraising duties exclusively. Federal cost principles prohibit the use of federal awards to perform fundraising. Therefore, we question all salary and benefit costs reported for this employee, which totaled $30,547.

Operating Expenses

We tested 41 transactions totaling $13,129 of operating expenses. We noted no exceptions.

Participant Eligibility

We reviewed the eligibility verification process for two ARRA-CSBG-funded programs. We noted no exceptions.

General Ledger

We reviewed the expenditures reported on the CABSC closeout report (Form CSD 925C) and compared it to the total of expenditure activity reports submitted to the department. We found that no expenditures were reported on the closeout report. While the department did not take any action to reduce the amount of reimbursement given to CABSC, CABSC should have ensured that it accurately reported expenditure information to the department.

Conclusion

We noted areas of non-compliance with federal cost principles. Salary and benefit costs were not properly supported by time documentation. Further, salary and benefit costs were claimed for employees who worked on unapproved or unallowable activities.

Recommendation

We recommend that the CABSC take action to ensure that it complies with federal cost principles and program guidelines. More specifically, we recommend that the CABSC take steps to ensure that:

- Reported salary and benefit costs are based on actual time worked on a program and are supported by proper time documentation.
- Employee activities are monitored to ensure that they are in compliance with federal cost principles.
- Grant closeout reporting is properly completed.

Sub-Recipient's Response

The sub-recipient acknowledged the review issues. For some of the issues, the sub-recipient provided information on corrective actions taken. For other issues, the sub-recipient disagrees with the review results. Refer to the Attachment for the sub-recipient's complete response.

SCO's Comments

Salary and benefit costs were unsupported for the following reasons: timesheets were modified after employee submission, time was not allocated to a program charge code, charged employee time did not agree with reported employee attendance, and a budget allocation was used to determine hours worked.

The sub-recipient questions the finding, but acknowledges that it has taken corrective actions to ensure the proper recording of employee time. These corrective actions were in response to a prior audit that we performed concerning a separate federal program.

We reiterate that federal cost principles (OMB Circular A-122 and OMB Circular A-87) require personnel activity reports in support of salaries and wages charged to awards. The personnel activity report must reflect an after-the-fact determination of actual activity, account for total activity for which employees are compensated, and be signed by the employee or supervisor. Budget estimates do not qualify as support.

Costs of two employees performing administrative activities were reported as programmatic costs.

The sub-recipient questions the finding because the positions were included in the Local Plan submitted to the department and over the course of the grant period costs were charged to both administrative and programmatic codes, as well as to other programs.

We disagree with the sub-recipient that the approval of the Local Plan and the fact that the employees charged their time to both administrative and programmatic codes are pertinent to the issue at hand. Specifically, our concern relates to the charging of administrative duties as a direct, programmatic cost.

The ARRA-CSBG contract agreement between the department and the sub-recipient limits administrative costs to no more than 12% of the awarded grant amount. The sub-recipient established separate account codes to identify administrative and programmatic costs as they relate to the performance of grant-related activities. The sub-recipient charged employee time to both types of account codes during the award period.

The sub-recipient asserts that programmatic costs were tracked in the Special Projects code. However, our review of the employee activities indicates that this code was used to report administrative activities. The sub-recipient provided no evidence to support that time charged to the Special Projects code related to programmatic functions. Further, administrative-related costs charged to this code resulted in the sub-recipient exceeding its limit for administrative costs.

An employee performed unallowable fundraising activities.

The sub-recipient questions the finding because of employee duties performed and the department's approval of the Local Plan.

We disagree, and maintain that federal cost principles prohibit the use of federal funds to pay for fundraising activities. Here, the sub-recipient charged compensation costs related to an employee who performed such activities. Therefore, these costs are not allowable. The statement that the department approved the position in the sub-recipient's local plan is inconsequential; the sub-recipient is responsible for ensuring that costs that it submits for reimbursement are allowable and are in compliance with federal requirements.

Sub-Recipient: Community Action of Ventura County (CAVC)
ARRA-Community Services Block Grant (ARRA-CSBG)

Background

Contract Number:	09F-5153
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract Period Reviewed:	July 1, 2009, through September 30, 2010
Amount Awarded:	$1,086,577
Reported Expenditures:	$1,069,890
Amount Tested:	$133,396
Amount Questioned:	$0

Findings and Questioned Costs

We tested transactions reported to the California Department of Community Services and Development. The Office of Community Services (OCS), a component of the Administration for Children and Families, which is an operating division of the federal Department of Health and Human Services (DHHS), provides guidance in implementing the program. The DHHS is the federal cognizant agency over ARRA-CSBG. We deemed costs as questionable for the entire transaction amount if one or more instances of non-compliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 66 transactions totaling $42,675 in salary and benefit costs. We noted no exceptions.

Operating Expenses

We tested nine transactions totaling $21,695 in operating expenses. We noted no exceptions.

Subcontractor Services

We tested five transactions totaling $17,270 in subcontractor services. We noted no exceptions.

Equipment Costs

We tested two transactions totaling $51,756 in equipment costs. We noted no exceptions.

Period of Availability of Federal Funds

We reviewed $1,069,890 in reported expenditures to determine if they were obligated and liquidated by the award deadline. We noted no exceptions.

Participant Eligibility

We tested 16 participants receiving services under ARRA-CSBG-funded programs. We noted no exceptions.

General Ledger

We reviewed the expenditures reported on the CAVC closeout report (Form CSD 925C) and compared it to the total of expenditure activity reports submitted to the department. We noted no differences.

Conclusion

We noted no exceptions during the review.

Sub-Recipient's Response

The sub-recipient agreed with the review results. Refer to the Attachment for the sub-recipient's complete response.

Sub-Recipient: Northern California Indian Development Council (NCIDC)
ARRA-Community Services Block Grant (ARRA-CSBG)

Background

Contract Number:	09F-5157
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract Period Reviewed:	July 1, 2009, through September 30, 2010
Amount Awarded:	$3,025,446
Reported Expenditures:	$3,025,446
Amount Tested:	$665,731
Amount Questioned:	$14,482

Findings and Questioned Costs

We tested transactions reported to the California Department of Community Services and Development. The Office of Community Services (OCS), a component of the Administration for Children and Families, which is an operating division of the federal Department of Health and Human Services (DHHS), provides guidance in implementing the program. The DHHS is the federal cognizant agency over ARRA-CSBG. We deemed costs as questionable for the entire transaction amount if one or more instances of non-compliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 550 transactions totaling $189,138 in salary costs. We noted no exceptions.

We also recomputed the amount of fringe benefit costs chargeable to the ARRA-CSBG award based on NCIDC's federally-approved fringe benefit rates. The recomputed fringe benefits totaled $462,110. However, NCIDC charged $476,592 in fringe benefit costs to the ARRA-CSBG award. Therefore, we question $14,482, which represent the excess in fringe benefit costs that were charged.

Period of Availability of Federal Funds

We reviewed $3,025,466 in reported expenditures to determine if they were obligated and liquidated by the award deadline. We noted no exceptions.

Participant Eligibility

We tested 37 participants to determine if participant eligibility was properly verified. We noted no exceptions.

General Ledger

We reviewed the expenditures reported on the NCIDC closeout report (Form CSD 925C) and compared it to the total of expenditure activity reports submitted to the department. We noted no differences.

Conclusion

We noted an instance of non-compliance with federal cost principles. The instance indicates that NCIDC did not use its federally-approved fringe benefit rates to determine fringe benefit costs chargeable to the ARRA-CSBG award.

Recommendation

We recommend that NCIDC take action to ensure that it complies with federal cost principles and program guidelines. More specifically, we recommend that NCIDC use its federally-approved fringe benefit rates to determine chargeable fringe benefit costs.

Sub-Recipient's Response

The sub-recipient disagreed with the review finding and expressed other concerns. Refer to the Attachment for the sub-recipient's complete response.

SCO's Comments

Allowable fringe benefit costs were overstated by $14,482.

The sub-recipient asserts that ARRA-CSBG funds may be used to supplement other grant awards that it administers. Specifically, the sub-recipient states that fringe benefit costs that were incurred in other programs may be reimbursed using ARRA-CSBG funding.

We disagree, and maintain that the sub-recipient had an existing agreement with the its federal cognizant agency to use specific fringe benefit rates in determining indirect and fringe benefit costs. Under the terms of the agreement, the sub-recipient must use the approved rates when charging fringe benefit costs to grant awards. Here, the sub-recipient charged fringe benefit costs that exceeded the agreed upon rates. As a result, the sub-recipient overstated its allowable fringe benefit costs.

Other concerns.

The sub-recipient expressed concern as to the basis for the review and the conduct of review staff. We conducted this review in order to assess the CSD's administration of federal ARRA grants. Based on an assessment of the department's control processes and that it disbursed most of the funds to sub-recipients, we conducted a limited review of sub-recipients. In regard to the personnel-related issue, we have noted the agency's concerns and have addressed the matter outside of this report.

Sub-Recipient: Proteus, Inc.
ARRA-Community Services Block Grant (ARRA-CSBG)

Background

Contract Number:	09F-5161
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract Period Reviewed:	July 1, 2009, through September 30, 2010
Amount Awarded:	$3,628,407
Reported Expenditures [1]:	$3,628,407
Amount Tested:	$807,716
Amount Questioned:	$207,352

Findings and Questioned Costs

We tested transactions reported to the California Department of Community Services and Development. The Office of Community Services (OCS), a component of the Administration for Children and Families, which is an operating division of the federal Department of Health and Human Services (DHHS), provides guidance in implementing the program. The DHHS is the federal cognizant agency over ARRA-CSBG. We deemed costs as questionable for the entire transaction amount if one or more instances of non-compliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 80 payroll transactions totaling $80,363 of salary and benefit costs. We noted no exceptions.

Subcontractor Services

We tested 26 subcontractor transactions totaling $251,491. We questioned $197,966 due to the following instances of noncompliance with federal cost principles:

- In 13 of 26 transactions, valid timesheets were not provided to support claimed time. In addition, we noted the following:
  - In 8 of 13 transactions, forms certifying overtime hours worked were provided in lieu of timesheets. These forms did not indicate all activities worked by employees during the period.
  - In 4 of 13 transactions, the timesheets did not indicate all activities worked by employees during the period, or employee time declarations were submitted in lieu of timesheets. Further, participant enrollment fees were invoiced to, and paid by, Proteus Inc.; however, there was insufficient detail to support invoiced amounts.
  - In 1 of 13 transactions, no timesheets were provided to support employee time.

[1] Award expenditures submitted to the department per the expenditure activity reports system totaled $3,628,407. However, in its closeout report (Form CSD 925C), Proteus, Inc. reported $3,633,526 in expenditures. The difference is attributed to program and interest income totaling $5,119 that was reported as expended in its closeout report. However, Proteus, Inc. did not report these expenditures to the department. Therefore, the department has no record of the expenditures.

- In 7 of 26 transactions, documentation was insufficient to validate costs. Further, participant fees and supplies costs were not supported. In addition, we also noted the following:
  - In 6 of 7 transactions, allocations of operating cost were incurred under ARRA-CSBG. However, there were no details to support the allocations. Further, in four of the six transactions, Proteus, Inc. was billed in excess of agreed-upon amounts for certain operating expenses as specified in its Memorandum of Understanding agreements with subcontractors. However, Proteus, Inc. paid and forwarded these amounts to the department for reimbursement under ARRA-CSBG.
  - In 1 of 7 transactions, there was no support for invoiced operating costs.
- In 6 of 26 transactions, there was no supporting documentation to validate costs.

Equipment

We tested four transactions totaling $278,232 in equipment costs. We question $9,170 of the $278,232 because formal department approval was not received to purchase embroidery equipment.

Other Costs and Period of Availability of Federal Funds

We tested 32 transactions totaling $45,770 in participant tuition costs. We noted no exceptions.

Participant Eligibility

We tested 89 participants who received $146,741 in services. Although we found that all tested participants were eligible to receive services, we note that Proteus, Inc.'s procedures used to verify participant eligibility were based on incorrect guidance.

According to department guidelines, eligible participants for the ARRA-CSBG program are individuals with annual incomes that do not exceed 200% of the federal poverty guidelines or with no current income. Per Proteus, Inc.'s operations manual, annual income was determined using two alternate methods, actual earned income or the total of the prior three-months earnings multiplied by four periods, which would represent annual income (annualized income method). After computing annual income using both methods, Proteus, Inc. would select the lower amount as the annual income and compare this to the income guidelines for ARRA-CSBG. Proteus, Inc.'s procedures do not provide guidance on how to verify income for individuals with no current monthly income.

We found that the annualized income method described in Proteus, Inc.'s operations manual was derived from guidance on income determination approved for the Workforce Investment Act, a separate federal program. Proteus, Inc. did not receive approval to use this alternate method for computing annual income for ARRA-CSBG. Therefore, this method should not have been used to determine annual income under ARRA-CSBG.

While the participants from our sample were eligible, we note that Proteus, Inc.'s procedures may have led to the incorrect acceptance of ineligible participants in certain circumstances. From our sample, we found an instance in which Proteus, Inc. determined an individual to be eligible because the annualized income was lower than the federal poverty guidelines. However, as annualized income was not approved for use in determining annual income for ARRA-CSBG, Proteus, Inc. should have instead reviewed the individual's actual earned income or verified that the individual had no current monthly income. We found that the individual's annual income exceeded the federal poverty guidelines and that the individual earned no monthly income at the time. Although the individual was eligible to receive services, the individual's eligibility was based on guidelines different from those that Proteus, Inc. used to determine eligibility.

General Ledger

We reviewed the expenditures reported on Proteus, Inc.'s closeout report (Form CSD 925C) and compared it to the total of expenditure activity reports submitted to the department. We questioned $4,869 due to following instances of noncompliance with federal cost principles:

- Proteus, Inc. did not apply its earned program income towards award expenditures. Therefore, we question the amount of earned income, which totaled $4,653.
- Proteus, Inc. earned $466 in interest income and retained the full amount. However, interest income in excess of $250 should have been returned to the federal awarding agency. Therefore, we question the unreturned balance of $216.

Conclusion

We noted areas of non-compliance with federal cost principles and grant requirements. Subcontractors were not properly monitored to ensure that they complied with federal cost principles and grant requirements. An equipment purchase was made without formal department approval. Participant eligibility was determined using guidelines from another federal program. Earned program income was not applied towards award expenditures. Lastly, excess interest income was not returned to the federal awarding agency.

Recommendation

We recommend that Proteus, Inc. takes action to ensure that it, and its subcontractors, comply with federal cost principles and grant requirements. More specifically, we recommend that Proteus, Inc. takes steps to ensure that:

- Subcontractors are monitored to ensure compliance with federal cost principles and grant requirements.
- Necessary and proper approval is obtained prior to making equipment purchases.
- Participant eligibility is properly verified prior to rendering services.
- Earned program income is applied towards award expenditures to the extent possible.
- Excess earned interest income is returned to the awarding agency.

Sub-Recipient's Response

The sub-recipient acknowledged the issues noted in the review results. For one of the issues, the sub-recipient concurred with the finding and provided information on the corrective actions taken. For other issues, the sub-recipient disagrees. Refer to the Attachment for the sub-recipient's complete response.

SCO's Comments

Valid timesheets were not provided to support claimed subcontractor time. In several instances, the sub-recipient provided overtime certification forms in lieu of timesheets. In other instances, timesheets did not indicate all activities worked by employees or time declarations were submitted in lieu of timesheets. Finally, in one instance, no timesheets were provided to verify costs.

The sub-recipient argues that it provided valid personnel activity reports to support employee compensation costs that were billed by its subcontractors.

We disagree, and maintain that federal cost principles (OMB Circulars A-122 and A-87) require personnel activity reports in support of salaries and wages charged to awards. The personnel activity report must reflect an after-the-fact determination of actual activity, account for total activity for which employees are compensated, and be signed by the employee or supervisor. We reviewed the time reports submitted by subcontractors for the sub-recipient's review and found that they were not in compliance with federal requirements for the following reasons:

- The subcontractor submitted employee certifications of overtime hours worked. These forms did not identify the total activity performed by employees during the reporting period.
- Timesheets did not identify the program worked on by employees.

Documentation was insufficient to support reported participant fees and supplies costs.

The sub-recipient asserts that it provided documentation to support the questioned costs.

We disagree, and maintain that the sub-recipient did not determine if the subcontractor verified participant eligibility before providing services. Further, the sub-recipient did not maintain documentation that supports the costs incurred by its subcontractors that were reported for grant reimbursement.

There was no documentation to validate costs.

The sub-recipient does not agree and states that it provided support for the fire loss.

We acknowledge that the sub-recipient's subcontractor incurred a fire loss, which resulted in a loss of records. We have asked the sub-recipient for documents that could be used to support or corroborate that costs were incurred. We were provided with no other information that could be used to substantiate the amounts reported by the sub-recipient. We acknowledge the difficulty in obtaining pertinent records, but without any other evidence to show that costs were incurred, we could not conclude on whether costs were incurred in regards to grant activity.

Equipment purchases were not formally approved by the awarding agency.

The sub-recipient asserts that it asked the department if it needed approval to make certain equipment purchases. In response, a department staff member indicated that no formal approval was needed.

We agree that the guidance provided by the department staff member was incorrect; formal approval was necessary for equipment purchases. Prior approval is required in accordance with federal cost principles and the department's own policy for equipment purchases. Further, the department communicated these requirements to the sub-recipients through formalized training. However, as a recipient of federal funds, it is the responsibility of the sub-recipient to ensure that it complies with all relevant requirements, and to seek clarification on matters as needed.

We found that all tested participants were eligible to receive services; however, we note that Proteus, Inc.'s procedures used to verify participant eligibility were based on incorrect guidance.

The sub-recipient believes that our observation is irrelevant because all 89 participants were eligible.

We disagree, and maintain that according to department guidelines, eligible participants for the ARRA-CSBG program are individuals with annual incomes that do not exceed 200% of the federal poverty guidelines or with no current income. The method used by the sub-recipient is inappropriate because it relates to eligibility in a different federal program, the Workforce Investment Act. While the participants

in our sample were considered eligible after applying the appropriate method, we note that the sub-recipient's procedures may have led to the incorrect acceptance of participants in certain circumstances.

Proteus, Inc. did not report program income on its closeout report.

We agree with the sub-recipient's response and removed this finding.

Attachment 1—
Sub-Recipient Agencies' Responses to Review Results

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EXECUTIVE DIRECTOR
Jeremy T. Tobias

November 9, 2011

Jim L. Spano, Chief
Mandated Costs Audits Bureau
Division of Audits
California State Controller's Office
P.O. BOX 942850
Sacramento, CA 94250-5874

RE: Community Services Block Grants Stimulus
American Recovery & Reinvestment Act 2009 Program (ARRA CSBG)
July 1, 2009 through September 30, 2010

Grantee Response

OPERATING EXPENSES

1. **Finding** - ***A one-time setup fee totaling $9,845 for a payroll system was incurred. Since this system benefits the entire agency, the fee should have been allocated amongst all programs that benefit from the system. Instead, the full amount was charged to ARRA-CSBG.***

   CAPK response: CAPK does not agree with the finding as stated.

   The CSBG contract is available to Community Action Agencies (CAA) to develop and implement programs and efforts in addressing the needs of low-income residents in Kern County. The use of CSBG funds has allowed Grantees to start, support and supplement CAA programs and activities. The use of funds has not always been dictated by allocation models. The CSBG ARRA funds were presented to Grantees with the guidance that such funds could be used for acceptable CSBG activities. The use of funds for the one-time setup fees for the payroll system would have been allowable under CSBG contract and therefore allowable under CSBG ARRA.

   For example - CAPK was awarded a CSBG discretionary contract to explore and apply for an Indirect Cost Rate for CAPK. The Indirect Cost Rate would benefit all contracts under CAPK, however such use of CSBG funds was granted to pay the entire cost of this contract, even though it could benefit all programs. This same principle applies to the one-time set up fees for the payroll system.

2. **Finding** - ***A maintenance service agreement was entered into for a printer at the Shafter Youth Center. The service agreement spanned from March 1, 2010 to February 28, 2011. Per OCS Information Memorandum 109, recipients should receive all services funded by ARRA-CSBG by September 30, 2010. Therefore, we question a pro rata portion of the service agreement, which totaled $438.***

   CAPK response: CAPK agrees with the finding.

300 19th Street, Bakersfield CA 93301 (661) 336-5236 Toll Free (888) 445-0090 Fax (661) 322-2237
www.capk.org

3. **Finding** - ***Two transactions totaling $3,956 for promotional items were incurred. Federal cost principles prohibit the purchase of promotional items using Federal funds.***

   CAPK response: CAPK does not agree with the finding as stated.

   The items purchased were outreach items designed to build awareness and increase participation in our Voluntary Income Tax Assistance (VITA) and 2-1-1 Kern County programs. Examples of the items purchased included pens and refrigerator magnets that included the name and telephone number of the program. These outreach items were distributed at community events, such as health fairs, which target low income individuals and families. The use of these materials was to reach clients in need of these services not to market CAPK.

SUBCONTRACTOR SERVICES

1. **Finding** - ***in 26 of 86 sub-transactions, the personal activity report did not reflect total activities worked by the employee. Further, in 2 of the 14 sub-transactions, a timesheet for an employee tested did not indicate the time reporting period.***

   CAPK response: CAPK does not agree with this finding.

   CAPK entered into a contract with Corporation for Better Housing (CBH) to develop and administer a Summer Youth Program at their low-income housing facility in Southeast Bakersfield utilizing CSBG ARRA funding. CBH developed a Summer Youth Program and recruited three part-time staff solely for this purpose in addition to employing staff to oversee the contract. The Job Description for the part-time positions clearly states the activities for work in the Summer Youth Program, for June 1, 2010 – August 6, 2010 (the term of the contract between CAPK and CBH) and the hours of work would be from 11:30 a.m. to 5:00 p.m., which are the hours of the Summer Youth Program. Copies of these Job Descriptions were provided. The three part-time staff reported total hours worked and were paid for all hours worked, which were for the Summer Youth Program only. The timesheets for the office staff person indicates "Office" and "Holiday" for work activities. The timesheet used by CBH did not specifically reference the CSBG ARRA contract. However, this is the only contract for which the staff worked. In reference to the timesheet for Stephanie Galan for the period ending June 25, 2010, the timesheet was completed and signed and dated by the employee and supervisor. However, the period ending date was omitted. The date of the signing was on June 25, 2010 which was the end of the week for that pay period.

   Corrective action to address the finding of incomplete timesheets - In future subcontracts, CAPK will provide appropriate guidance on required documentation in the submittal of salary and wages expenses. CAPK will also provide additional training to staff to ensure subcontracts are monitored for compliance with contract requirements, federal requirement, and other regulatory guidelines.

2. **Finding** - ***In 1 of 86 sub-transactions - In one transaction meals expense were claimed for social activities.***

   CAPK response: CAPK does not agree with the finding as stated.

The invoice in question is for a $210.00 purchase of sandwiches from SubWay. CSBG ARRA funds were utilized to provide an extensive Summer Youth Program for the youth in an impoverished area of Southeast Bakersfield. The goal of the program was to introduce new activities and experiences to the areas youth who would normally not be exposed to such activities. The range of events and activities included painting, dance, music, and other classes. The Summer Youth Program was highlighted by a year-end event that included games, activities and food, including a rock climbing activity. As part of the program, food for the youth was provided. Such expense has been approved for use under the CSBG and other contracts when the meal was part of the stated program. CAPK believes that use of CSBG ARRA funds for this program purpose should be allowable.

Jeremy T. Tobias
Executive Director

community Action PARTNERSHIP
Helping People. Changing Lives.

Community Action Partnership of Orange County

December 22, 2011

Jim L. Spano, Chief
Mandated Cost Audits Bureau
State Controller's Office, Division of Audits
California State Controller's Office
3301 C Street, Suite 700
Sacramento, CA 95816

Re: Audit ID #: S11-ARS-001 Exit Report

In response to the above referenced report:

Sub Grantee Monitoring
For grants where CAPOC is responsible for monitoring the Sub Grantees compliance with grant requirements, federal cost principles, and other regulatory guidelines, CAPOC will intensify its efforts for the monitoring especially in the area of payroll time records to insure that all time is accounted for and categorized correctly in accordance with *"OMB A-122, Appendix B Selected Items of Cost, Item 8 Compensation for Personnel Services."*

Reconciliations
CAPOC will add an additional step in the process of reconciliations between general ledger and grant reporting to include a search for checks voided in the previous period that were reissued in the current period.

We thank the excellent staff of the State Controller's Office for their professionalism, courtesy and diligence.

Clarence W. Ray
Executive Director

Alan Woo
Program Director

Malcolm Brown
Chief Financial Officer

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January 18, 2012

Mr. Jim L. Spano
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
P. O. Box 942850
Sacramento, CA 94250-5874

SUBJECT: **RESPONSE TO CSBG ARRA AUDIT FINDINGS AND QUESTIONED COSTS CONTRACT NUMBER 09F-5137**

Dear Mr. Spano:

Community Action Partnership of San Bernardino County (CAPSBC) responds to the findings and questioned costs on the CSBG ARRA audit discussed at the phone exit conference held on December 19, 2011. We have outlined State Controller's Office questioned costs and recommendations and CAPSBC's responses below:

Salary and Benefit Costs: 60 payroll transactions were tested totaling $102,975 of salary and benefit costs. $88,256 was questioned due to the following instances of noncompliance with federal cost principles:

- In 42 of 60 transactions, the employees charged time to programs other than ARRA-CSBG. Examples of other programs which were charged include the Inland Empire Individual Development Account (IEIDA), Community Services Block Grant (CSBG), and the Homeless Prevention Rapid Rehousing Program (HPRP); each refers to separate federal programs. Although these costs were incurred for other programs, the CAPSBC reported them as ARRA-CSBG costs.

- In 18 of 60 transactions, the same time allocation code was used to assign costs from separate programs. For example, on several timesheets, the code 08-05 was used to assign costs from the ARRA-CSBG, HPRP and Children and Family Services/Promoting Safe and Stable Families (CFS/PSSF) programs. However, the code 08-05 corresponds to an account in the CAPSBC's accounting system which tracks ARRA-CSBG costs only. We question the time recorded on these timesheets because costs for different programs were charged under the same time allocation code.

- In 11 of 60 transactions, time allocation codes or project name descriptions on timesheets were modified to classify reported hours as ARRA-CSBG. We found that the project codes listed on the timesheets did not agree with project descriptions. Subsequently, the project codes or descriptions were modified to indicate ARRA-CSBG. The CAPSBC staff could not clearly explain their procedures for reviewing the modifications nor could they explain whether such modifications were approved.

- In three of 60 transactions, the time allocation of reported hours does not agree with the record of attendance presented on the timesheet.

- In one of 60 transactions, no program was charged.

Recommendation: CAPSBC will take action to ensure that it complies with federal cost principles and grant requirements. More specifically, CAPSBC takes steps to address the following items:

- **Reported salary and benefit costs are based on actual time worked on a program and are supported by proper time documentation.**
- **Time documentation identifies programs consistently and should agree with accounting system records.**
- **Grant expenditures are reviewed for compliance with federal cost principles.**
- **Services are provided in accordance with grant requirements.**

Agency Response:

- All employees hired under the CSBG ARRA contract were set up in the accounting system according to general ledger account code 08-05-032 to charge their salaries and fringe benefits. These employees spent 100% of their time on CSBG ARRA funded projects. When their timesheets were data entered using their employee identification number, the system automatically charged their time to the CSBG ARRA grant. In some cases, employees erroneously allocated a portion of their time to the incorrect program on their timesheet. To correct this problem, CAPSBC will implement timesheet training for all employees, with a special module for supervisors who approve timesheets to ensure that all employees allocate their time properly and that first-line supervisors understand their "checks-and-balances" role in the payroll process. It is important to note that the Inland Empire Individual Development Account wan an expanded project under the CSBG ARRA funding and consequently would represent a proper charge to the CSBG ARRA.

- CAPSBC contests this questioned cost of using the same time allocation code 08-05. Accounting codes are seven digits, so code 08-05 is not a complete code. For ARRA CSBG, the complete code is 08-05-032, for HPRP, the complete code is 08-05-033, and for PSSF, the complete code is 08-05-017. Salary and benefit costs pertaining to HPRP and PSSF were properly charged to their correct contracts and not improperly charged to CSBG ARRA.

- Timesheet modifications were done to correct time misallocations. Agency procedure requires that any timesheet modification be initialed by the employee before the timesheet is approved by the supervisor. To correct this problem, CAPSBC will implement timesheet training for all employees, with a special module for supervisors who approve timesheets to ensure that all employees allocate their time properly and that first-line supervisors understand their "checks-and-balances role in payroll process.

- The three transactions should have been corrected to ensure the actual hours worked agreed with the allocation. CAPSBC will ensure that time will be properly allocated as indicated in the attendance record.

- This was an employee oversight for not allocating time worked. CSBG ARRA was charged for employee time as the system recognized employee through the employee identification number.

Operating Expenses: Three transactions were tested totaling $17,191 of operating expenses. $14,614 was questioned because the agency charged poster advertisements and movie theatre commercials designed to promote the organization. These items are not allowable per federal cost principles.

Agency Response:

Poster advertisements and movie theatre commercials were displayed in locations where demographic information indicated they would be seen by potential clients who qualified for CSBG ARRA programs. This innovative approach to outreach helped inform the community about CSBG ARRA services provided by CAPSBC. OMB Circular No. A-122 section 1 d. 2 states "Costs of communicating with the public and the press pertaining to specific activities or accomplishments which result from performance of Federal awards (these costs are considered necessary as part of the outreach effort for the Federal award) are allowable public relations costs.

Other Costs: 15 transactions were tested totaling $178,588. Of the amount tested $167,985 in gift card purchases were reviewed to determine if they were allowable in accordance with grant requirements. $120,486 was questioned because they were distributed after the grant period cutoff, gift cards were purchased after the grant period cutoff, or that CAPSBC was unable to verify when the gift cards were distributed.

Agency Response:

CAPSBC contests this questioned cost. Funds were obligated to purchase gift cards prior to September 30, 2010, with the expectation that the distribution of the cards would extend beyond September 30, 2010 contract end date. This was known to State of California Department of Community Services and Development. The cards were shipped ten weeks later on December 7, 2010 accompanied by an invoice of the same date, and a check was later produced to pay the invoice. Using the accrual basis of accounting, CAPSBC recorded these gift card purchases in the ledger as accounts payable at September 30, 2010. All cards were used for the benefit of clients qualified under the guidelines of CSBG ARRA.

If you have further questions, please contact Rachel Feir, Finance Director at (909) 723-1546 or via e-mail at rfeir@capsbc.sbcounty.gov.

Sincerely,

Patricia L. Nickols
Chief Executive Officer

C: Ken Cheung, State Controllers Office
Pamela Harrison, State CSD
Charles Adams, Jr., Deputy Director
Rachel Feir, Finance Director

ECONOMIC OPPORTUNITY COUNCIL OF SAN FRANCISCO
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October 28, 2011

State Controller's Office
Jim L. Spano, Chief Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Regarding Audit ID #: S11-ARS-001

The responses in this letter address the findings from the State Controller's (SCO) Audit of the Economic Opportunity Council of San Francisco (EOC), Audit ID #S11-ARS-001. EOC will address each finding by SCO individually and concerns / recommendations therein.

Finding: Salary and Benefit Costs

- EOC spent the $300,000 budgeted for Child Development Program (CDP) support by spreading the monies out to ensure that we met the Agency's cash flow needs. The $300,000 or monthly expenditures were indeed based on actual costs of staff, noted in our support. Due to the Agency's cash flow constraints, EOC decided to utilized $30,000 each month (from January – June 2010) and $40,000 each month (from July – September 2010). We did this to ensure we had cash to support CDP throughout the contracted period (January – September 2010). At the beginning of the contract, we identified the staff members to be supported by the ARRA contract and each month, supported those employees salaries, up to our internal budget. Therefore, any expenditure submitted to ARRA is supported by each employee's time card. Basically, we took the employee's salaries for the period (month), based on ADP payroll data, less any support from other contracts (Wages Plus) and the remainder was charged to the ARRA Contract. Please see the attached CDP ARRA Support document (which was submitted to SCO) for details on the employees and how much was supported by ARRA and Wages Plus.

- In regards to the questioned costs of $300,000 in support of EOC's CDP findings, we acknowledge that we did not specifically identify on each employee's time card any ARRA project identifier. However, we did denote in our monthly analysis that certain employees were to be accounted for under ARRA. We accounted for these employees consistently month over month and although we did not indicate the ARRA Project on each employee's time card, we felt that there is sufficient information and documentation to support that these employees were "assigned" to the ARRA Project during these time periods. In the future, we will be sure to identify on each employee's time cards or other supporting documentations, the projects in which the expenditures are to be charged.

- In terms of funding, it is true that the EOC's CDP program receives multiple grants and each grant is specific to the usage of the funds provided. Our CDP (CSPP) program is **not** a cost reimbursement program, but rather a program where the main funder, the California Department

of Education (CDE), reimburses EOC based on the days of enrollment at our child care centers. Therefore, no matter how much it costs EOC to provide the services for each child, CDE reimburses us a fixed amount. This is true for all the funders to our CDP program except for Wages Plus, which requires us to identify the employees that if funds. Therefore, as indicated in the attached support, in the CDP ARRA Support documentation (which was submitted to SCO) EOC has identified the portion of each employee's salaries that is funded by Wages Plus and the portion funded by ARRA.

Subcontractor Services and Period of Availability of Federal Funds

EOC contracted with the San Francisco City's Office of Economic Workforce and Development (OEWD) to fulfill a number of programs that were part of the ARRA Contract. As a result, we believe that it is appropriate for OEWD to address the findings by the State Controller's Office over its accounting and documentation of the costs attributed to ARRA. Though the response below is from OWED, EOC has review and concur with the conclusions in the responses.

SCO Finding: Compliance with Federal Requirements

- *We reviewed 10 invoices submitted by the OEWD to the EOCSF for payment. The total amount paid on these invoices totaled $295,264, or 43 percent of costs paid by the EOCSF to the OEWD. We found that all 10 invoices indicated costs incurred under WIA programs.*
- *Furthermore, within the 10 invoices, we tested a total of 45 partner-agency transactions, which totaled $72,747 or 25 percent of the amounts paid by the EOCSF to the OEWD under their agreement. The results of the tests are as follows:*
    - *In all 45 transactions, none indicated that costs were incurred for ARRA-CSBG.*
    - *In all 45 transactions, all indicated allocations to general fund revenue sources, which were used to pay the excess of costs incurred under WIA programs.*
    - *In 36 of 45 transactions, costs were identified as WIA programs.*
    - *In 28 of 45 transactions, there was inadequate documentation to fully validate the claimed expenditures.*

OEWD Response: We disagree with the State Controller's belief that the indication of incurring costs under WIA programs is a valid criteria for questioning costs under Federal regulations such as OMB A-87, A-122, or A-133. Although invoices indicated "Workforce Investment Act-WIA", this is simply a clerical issue. A significant portion of the City's workforce training programs are funded by the Federal Workforce Investment Act and this description is just part of the invoicing template. However, each invoice also noted the specific program that costs were being billed for (Citybuild and RAMP) as well as a breakdown as to how the invoice was funded. The Citybuild and RAMP workforce training programs were budgeted activities under the ARRA CSBG grant as well as under the Workforce Investment Act funding and charges to each of the funding sources were discretely accounted for.

OEWD questioned which Federal guideline was not being followed during the teleconference and was told that it was against Federal guidelines to fund a program with more than one Federal grant. Many Federal grants and programs overlap, so it's quite common for a program to be funded by more than a single Federal grant so long as all the eligibility requirements of the

awards are met and costs are not billed to each fund more than once. OEWD assumes the below as their criteria for determining exceptions noted in their report:

Reference: OMB A-87, Attachment A, Section C:

3. Allocable costs. (c) Any cost allocable to a particular award or other cost objective under these principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

OEWD did not use ARRA CSBG funds to overcome funding deficiencies nor were the charges only specifically allocable to the Workforce Investment Act funding stream. Claimed costs for the Community Based Services Grant program were originally invoiced and charged to General Fund because appropriation for the grant award from EOC was not available at the time services were required by the grant term to be rendered because our legislative branch of government (San Francisco Board of Supervisors) had not yet had a chance to approve the request. Once the retroactive request was approved, the General Fund charges for the clients eligible under the Citybuild and RAMP programs were transferred to the ARRA CSBG program.

Furthermore, OEWD does not agree that there was inadequate supporting documentation for invoices reviewed. During the 11-month period that it took the State Controller's Office to complete this audit, the issue of inadequate supporting documentation was only identified by their staff a week before the exit conference. After OEWD requested more information, the State Controller's Office provided a listing of transactions that were deemed not to have sufficient supporting documentation but this list did not provide specific deficiencies.

All partner agencies were made aware that these funds were ARRA CSBG funds although their invoices and timesheets did not specifically identify the charges as such. OEWD does not agree that every funding source is required to be named on every level of detail, such as a timesheet or invoice. Given the portfolio of funding that often supports a given local program, it's quite impractical that every detail of an invoice will indicate how it's funded, especially given that workforce programs generally use cost allocation, which is allowable under OMB A-87.

In addition, OEWD staff was not asked follow-up questions for exceptions regarding inadequate supporting documentation. It is normal procedure that during any review or audit process, a reviewer usually will not be able to match all support with invoices on their own, especially for programs as complex as those under workforce development. Differences are usually resolved by arranging a meeting during fieldwork to go over exceptions before compiling a report. In this audit, the SCO auditors did not meet to discuss progress of fieldwork or inform our staff of exceptions during this entire review process and only identified exceptions at the end of the process, in preparation for the exit conference call.

Even though this is not a professional audit and this review is focused on the performance of the EOC, since OEWD is named in the report as having inadequate supporting documentation, we ascertain that OEWD should have been given a fair chance to demonstrate that expenses were supported by identifying specifically what documents are missing from each transaction sampled

so that the report is fairly accurate and usable. If these exceptions had been identified during the review process, we argue that we could have provided any missing documentation.

Finally, OEWD does agree that the invoices from subcontractors should have specifically noted ARRA CSBG as the funding source instead of General Fund. However, OEWD does not feel that this was anything more than clerical error. Additionally, the State Controller states that personnel costs be supported by Personnel Activity Reports (e.g. timesheets) to reflect actual hours worked, not budget estimates. For our subgrantees, personnel costs were not budget estimates and were allocated based on the number of participants served by program. OEWD annually monitors it's subgrantees to ensure that costs are allocated in a "reasonable" manner, as stated below:

Reference: OMB A-122, Appendix B, Section 8:

c. Reasonableness.

> *(1) When the organization is predominantly engaged in activities other than those sponsored by the Federal Government, compensation for employees on federally-sponsored work will be considered reasonable to the extent that it is consistent with that paid for similar work in the organization's other activities.*
>
> *(2) When the organization is predominantly engaged in federally-sponsored activities and in cases where the kind of employees required for the Federal activities are not found in the organization's other activities compensation for employees on federally-sponsored work will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.*

Although timesheets did not reflect hours worked by program, personnel charges made from these invoices to the ARRA CSBG program were determined based on participants served and eligible per Federal program guidelines. We will have partner agencies bill by using invoices that clearly list the appropriate funding sources in the future. However, it will not be possible to mark specific transactions billed in an invoice with every funding source that will be used to pay for it as the State Controller's Office identified during our teleconference as the criteria for sufficient supporting documentation. Supporting documents consist of invoices the partner's pay for different programs and are distributed to different funding sources based on the eligibility of the participants served, which OEWD and the Employment Development Department have deemed to be a reasonable basis for allocating costs.

Liquidation Payment

We acknowledge that the final $502,249 paid to OEWD was made past the liquidation date of the contract. We agree this is an oversight. On our behalf, it must be noted that these expenditures were indeed obligated and expended prior to the contract end date. We had never encountered this situation and will be very diligent to ensure that all future payments of any Federal contracts be made prior to the 90 days period after the end of the contract. In addition, we are currently working with CSD to resolve this matter.

Participant Eligibility

EOC reviewed the participant files found by SCO to be noncompliant. Our review indicates:

- The two participants in the [redacted] family were reported on the same form. The eligibility form shows a monthly income of $40,000. In actuality, the family's annual income is $40,000 - with a family size of 4.

- The [redacted] family had a second form in their file. The attached form indicates a family of four with an Annual Income of $25,000.

- The [redacted] family member who participated was referred to us by the San Francisco Bridges to Success Program where participants are pre-screen as low-income. EOC understands that we should not have relied on Bridges to Success Program's screening and will ensure that we screen all participants ourselves in the future.

- The [redacted] family did not indicate income as they were unsure if public assistance, their only source of funds, counted as "income" in this program.

In summary EOC acknowledges that we did not meet all Federal guidelines in our accounting and documentation of supporting data under the ARRA CSBG contract. We thank the State Controller's Office for identifying these deficiencies and we will be sure to implement process and procedures to future contracts to ensure these guidelines are adhered to. Please do not hesitate to contact us if you should have any additional questions or comments on these matters.

Regards,

Tuan Trinh, Interim CFO

Dennis Yee, Executive Director

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community Action PARTNERSHIP of SAN LUIS OBISPO COUNTY, INC.
Formerly known as Economic Opportunity Commission of San Luis Obispo County, Inc.

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December 15, 2011

Jim L. Spano, Chief
Mandated Cost Audits Bureau
State Controller's Office
Division of Audits
California State Controller's Office
3301 C Street, Suite 700
Sacramento, CA 95816

Mr. Spano:

As requested by Mr. Ken Cheung of your office, we are revising our response dated December 13, 2011 to add excerpt from his "Letter" which we reviewed on December 8, 2011 at our formal exit.

Thursday, December 8, 2011 an audit exit conference via telephone conference call was held by the California State Controller's Office with management staff of Community Action Partnership of San Luis Obispo County, Inc. Members of CSD staff were also present on the call. The exit was with regards to the following ARRA contract with CSD.

CSD Contract Number:	09F-5141
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract Period:	July 1, 2009 through September 30, 2010
Amount Awarded:	$472,392
Review Period:	April 10, 2009 through September 30, 2010
Reported Expenditures:	$472,392

You had asked at the conference call that we respond within seven days. Below are the concluding comments taken from your correspondence which was reviewed on December 8th during the exit call along with our response.

<u>General Ledger</u>

We reviewed the expenditures reported on the CAPSLO closeout report (Form CSD 925C) and compared it to the total of expenditure activity reports (EARS) submitted to the CSD and to the

CAPSLO's accounting records. We noted that the CAPSLO's accounting records and submitted EARS reports totaled $472,392. However, the CAPSLO erroneously reported $427,392 in expenditures in its closeout report, which is $45,000 less than the costs that it reported via the EARS system and supported by their accounting records. Therefore, the CAPSLO understated its award expenditures on the closeout report. While the CSD did not take any action to reduce the amount of reimbursement given to the CAPSLO, the CAPSLO should have ensured that it accurately reported expenditure information to the CSD.

Conclusion

We noted no incidences of noncompliance with federal cost principles. We did note that the CAPSLO's final reporting of expenditures did not reconcile with its submitted EARS reports and its accounting records.

Recommendation

We recommend that the CAPSLO work with the CSD to ensure its reporting of expenditures is accurate.

Community Action Partnership's Response

Community Action recognizes the mistake made on the interest-earned closeout schedule and concurs with the State Controller's Office. We will implement a process to have an independent party from the preparer proof the closeout reports on contracts. This process should detect and prevent any future errors such as the transposition error that occurred on this report.

Thank you for the opportunity to work with you as you performed your review of the ARRA funds. We appreciate the efforts you put forth on behalf of all those that benefited from the use of these funds in finding employment and assisting families in need.

Sincerely,

Elizabeth "Biz" Steinberg, CEO

cc: Jim Famalette, COO
Grace McIntosh, Deputy Director
Joan Limov, CFO

Community Action Board
of Santa Cruz County, Inc.

Jim L. Spano, Chief
Mandated Cost Audits Bureau
State Controller's Office
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

February 3, 2012

Regarding: **CAB Response to State Controller's Office Audit Response**
Award Number: 0901CACOS2
CSD Contract Number: 09F-5145
Award Period: July 1, 2009 through September 30, 2010
Amount Awarded: $465,676
Audit Period: July 1, 2009 through September 30, 2010

Dear Jim,

We have reviewed the State Controller's Office Audit Response for CSD ARRA CSBG Contract #09F-5145. Please note that each SCO finding is restated below and numbered followed by CAB's response which is in bold.

Salaries and Related Benefits

Finding #1
SCO Concern - Salary and Benefit Costs

We tested 36 payroll transactions totaling $58,046 of salary and benefit costs. We questioned all $58,046 due to the following instances of non compliance with federal cost principles:

- *In 34 of 36 transactions, the timesheets were modified to show program codes and hours charged to programs other than those that were originally shown. Further, there was no sign that these modifications were approved by either the employee or by management.*
- *In 27 of 36 transactions, the employee did not allocate their time to a program charge code.*
- *In 21 of 36 transactions, total time charged to programs did not agree with the time used for determining employee compensation.*
- *In 1 of 36 transactions, a budget allocation of the employee's time was used to report hours worked.*

CAB Response – We question this finding but for the sake of clarity began following the SCO recommendation beginning 2/1/2011.

The OMB Cir. A-122, Section m. Support of Salaries and Wages states that *"The reports must reflect an after-the-fact determination of the actual activity of each employee"*. In all instances identified by the SCO, the employee's CSBG activity was recorded on the timesheet. Each of the named employees spent 100% of their work time providing CSBG ARRA activities that were approved and legitimate CSBG ARRA activities. This can be verified by reviewing their timesheets which contain their names and hours worked which combined with their job title/job description details their activity. The identification of the charge code which is added to the timesheet after the employee submits their timesheet determines which charge code of many can be used for an activity (such as providing job development services) that meets the contract requirements of several contracts/charge codes. For instance, a Community Restoration Project Job Developer/Case Manager works 40 hours a week assisting youth to prepare and obtain employment. There can be up to four contracts that could be used for charge codes for this same activity – one being CSBG ARRA. The best source of charge codes is the Program Director or Chief Financial Officer who manages the whole budget.

However, for the sake of clarity, beginning on 2/1/2011, CAB installed a process to comply with the SCO recommendation that timesheets contain a designated column for employees to allocate their time to a program charge code for federal grants such as CSBG. This has been consistently monitored so that CAB is in compliance now with the SCO concern. Supervisors will continue to approve timesheets but the time allocations will already be evident on the timesheets rather than being calculated after the fact by the CAB CFO. We conclude that this addresses the four SCO concerns that: 1.) employees record their time to a program charge code for all federal grants, 2.) employees will initial any changes to timesheets, 3.) the total time will charged to federal programs will agree with the time used for determining employee compensation, and, 4.) there will be no budget allocations of employee's time.

Additional Text Added to Response Following Phone Exit Conference

SCO Concern - *In 21 of 36 transactions, total time charged to programs did not agree with the time used for determining employee compensation.*

CAB Response – We believe that this issue was resolved with the SCO during their HPRP audit of CAB performed in 2011. The transactions identified by SCO above, reviewed employees who have an exempt status. They are paid a weekly salary which is not based particularly on hours worked. However, we do require that exempt employees complete a timesheet with hours worked as a time study and as a record on which to base annual leave or holiday pay. Thusly, an exempt employee could record a different amount of hours worked than they were paid because their work hours will vary in a half-month pay period while their actual pay will not. Following our exit conference with SCO we agreed to add the following section to our CAB Administrative Procedures (a procedure that we currently follow).

"When calculating exempt personnel expenses charged to federal contracts, a percentage will be used based on the possible hours worked for that pay period versus the actual hours paid for that pay period. For example, in an eleven day work day pay period, a 37.5 per week employee would actually work 82.5 possible hours. They receive a salary based on an annualized salary of 81.25 hours per pay period. The percentage of 81.25 divided by 82.5 is 98.5%. Should the employee record on their time sheet 20 hours of federal contract activities, the actual expense to the federal contract will be 20 hours times 98.5%. This same percentage will be used to establish the federal activity benefit expense."

Finding #2

A. SCO Concern – Special Projects

In our review of salary and benefit costs, we found that three employees charged their time under the program code "special projects". This program was not approved in the CAB SC's local plan. We spoke with the CABSC staff and reviewed employee job duty statements to understand the work performed by these employees. Based on our review, we conclude on the following:

- *Two of the three employees performed job duties that related primarily to program administration. The CABSC indicates that the employees performed programmatic duties in other activities. However, the CABSC did not charge the costs of programmatic duties to the appropriate program code. Instead, the salary and benefit costs were charged under the special projects code. Work performed by these employees was primarily administrative in nature and programmatic duties were not charged to an appropriate and approved activity. Therefore, we question the salary and benefit costs charged by these employees, which totaled $49,789.*

CAB Response – We question this finding – the three employees are listed in the approved Local Plan

The three employees mentioned in Finding #2 were specifically listed in the CAB Local Plan, revised 7/28/2010, and those entries are copied below. The three employees carried out the duties as outlined in the Local Plan. However, rather than create an account code for each of the three positions in CAB's fiscal system, they were bunched together under an account code we labeled Special Projects. We also had a function code to differentiate between program and administrative charges within Special Projects.

These three position as detailed in the CAB CSBG ARRA Local Plan were reviewed and approved by the State of California Department of Community Services and Development shortly after the revision was submitted on 7/28/2010. Please review the following text copied from the CAB Local Plan.

Job Developer – A.4. ***"CAB has three programs that provide workforce preparation services. This new position, partly supported with ARRA funds, will work with the CAB staff and these programs to provide job identification & placement assistance on an agency wide basis. While the bulk of their work is reflected in the job created measurements of the other activities, we anticipate that this position will create an additional 20 jobs. As this Job Developer identifies employment openings and their required skill levels, CAB will distribute this information to case managers at other CAB programs who work with the community which will lead to employment."***

Associate Director and Fund Developer A.5. ***"CAB is creating two new positions to leverage ARRA services. The Associate Director will oversee and monitor the various ARRA grants that CAB has already obtained or has applied for. Currently, in addition to the CSBG ARRA funding, CAB has applied as part of collaboratives for ARRA funding from five other sources. The Associate will coordinate data collection and reporting and supervise the job developer. It is anticipated that this position in the course of their work will independently create five new jobs. The second position is a CAB Fund Developer that will work with staff and the Board to increase donations. The Fund Development Plan creates a system that will ensure increased donations through the long-term which will support the on-going and employment focused services of the CAB programs. We anticipate that the short-term funds raised by this position will support the programs and increase employment by three positions."***

Finding #2.B.
SCO Concern – Three employees were charged to program costs when in fact they were performing administrative duties.

CAB Response – We question this finding - the three employees were paid from a variety of fund sources during the time period July 1, 2009 and September 30, 2010.

Please review the chart which appears at the end of this response which is labeled Attachment #1. The fund source code for CSBG ARRA Administration is Fund Source Code 0010, Program Code 01 and for CSBG ARRA Program, Fund Source 0010, Program Code 82.

- **The chart indicates that the Associate Director was paid from a variety of sources including from CSBG ARRA for administrative duties, 32.5% of her hours for the time period (Fund Source Code 0010, Program Code 01), and CSBG ARRA for programmatic duties, 38.4% of her hours for this time period (Fund Source Code 0010, Program Code 82). Her duties included a substantial commitment to programmatic duties in regards to new projects (working with programs to design forms and review client assistance documents, working directly with day laborers to assess their interest in and formation of the Day Worker Center, and overseeing the job development project that coordinated employment service efforts between three CAB programs).**
- **The Job Developer's total charges to CSBG ARRA during this time period were 74.1% of her hours which were charged to programmatic costs (her duties were exclusively programmatic as she worked directly with clients in assisting them with job opportunities and placements).**
- **The Fund Developer was also funded through a variety of sources including CSBG ARRA Administration 59.3%, and CSBG ARRA Program, 21.2% (his duties included working directly with CAB Program Directors to develop fund development plans and grant opportunities which directly benefited the programs and outreach activities to the respective communities for and with the CAB program staff).**

Finding #3
SCO Concern – *One of the three employees performed fundraising duties exclusively. Federal cost principles prohibit the use of federal awards to perform fundraising. Therefore, we question all salary and benefit costs reported for this employee, which totaled $30,547.*

CAB Response – We question this finding for three reasons.

A.) OMB Cir. A-122 Number 17. Fundraising and investment management costs states that, "*Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequest, and similar expenses incurred solely to raise capital or obtain contributions are unallowable*". This finding relates to one employee whose title is Development Director. In this capacity his duties focused on development activities rather than participating in or assisting "organized fundraising". His duties included training Board members and staff in fund raising strategies and techniques, developing individual program fund development plans for each of the CAB programs, and participation in (a small percentage of his time) in community events or mailings that also contained information or outreach about CAB or events whose primary role was to provide a service to the community/educate the public about CAB of which donations were accepted.

B.) The purpose of CSBG ARRA was to provide employment opportunities. This position addressed that goal and was counted as a job created under the auspices of CSBG ARRA.

C.) This position was detailed in the CAB CSBG ARRA Workplan which was reviewed and approved by the State of California Department of Community Services and Development. Please

review the following text copied from the CAB Local Plan: "*The second position is a CAB Fund Developer that will work with staff and the Board to increase donations. The Fund Development Plan creates a system that will ensure increased donations through the long-term which will support the on-going and employment focused services of the CAB programs. We anticipate that the short-term funds raised by this position will support the programs and increase employment by three positions.*"

Finding #4

SCO Concern - *We reviewed the expenditures reported on the CABSC closeout report (Form CSD 925C) and compared it to the total of expenditure activity reports submitted to the CSD. We found that no expenditures were reported on the closeout report. While the CSD did not take any action to reduce the amount of reimbursement given to the CABSC, the CABSC should have ensured that it accurately reported expenditure information to the CSD.*

CAB Response – In the future we will follow Community Service and Development directives in regards to completing form CSD 925C.

It was our understanding that this form was tracking the earning and use of interest income. We had no interest income from this contract and reported no usage of it in section #4. This form was reviewed by CSD and we were asked to revise it as it appears attached to this document. Upon clarification from CSD we will split the entire amount of the contract between section #4 (a.) and (b.).

Thank you for reviewing our responses as listed above and please include them in your final audit document that is forwarded to the State Department of Community Services and Development. Please contact me if you need any further information.

Sincerely,

Christine Johnson-Lyons
Executive Director

COMMUNITY ACTION OF VENTURA COUNTY INC.

A NONPROFIT CORPORATION

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EXECUTIVE DIRECTOR
Socorro López Hanson

The Community Action Agency In Ventura County Since 1965

October 28, 2011

Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office

Mr. Spano,
CAVC concurs with California State Controller's Office conclusion of no exceptions during their review of our California Department of Community Services and Development's (CSD) Contract Number: 09F-5153.

We also agree with the outcome of the October 25, 2011 exit phone conference which communicated the audit results to us and advised on how the results of this review will be reported.

Thank you for your consideration and please let us know if we can be of further service.

Sincerely,

Socorro López Hanson
Executive Director,
Community Action of Ventura County

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THE GOLDBERG HOUSE: 946 E. THOMPSON BOULEVARD • VENTURA, CA 93001 • 805-648-6088 • FAX: 805-648-1473

NORTHERN CALIFORNIA INDIAN DEVELOPMENT COUNCIL, INC.

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December 9, 2011

Jim Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
PO Box 942850
Sacramento, CA 94250-5874

RE: The NCIDC Response to the SCO Audit Findings for CSD Contract No. 09F-5157

The Northern California Indian Development Council, Inc. (NCIDC) respectfully disagrees with the single questioned cost and finding of non-compliance as expressed by the State Controllers Office (SCO) in their audit of CSD contract 09F-5157. The central disagreement revolves around the eligibility of utilizing ARRA CSBG funds in support of another program.

It is the NCIDC position that, consistent with expressed Congressional law and intent as well as HHS grants policy, CSBG funds may supplement other grant awards by paying for expansion and enhancement of existing services and programs that already receive Federal, State, local, or private funding for those activities, up to and including fringe-related expenses. The other program activities in question were included in the ARRA CSBG Community Plan developed and published by the NCIDC and approved by CSD at the beginning of the contract. Outcomes of these "questioned" CSBG expenditures were accounted for in the CSBG ROMA performance-based management system. It is the NCIDC's position that the use of the funds was an eligible expense, and further the questioned amount is insignificant in relationship to the total contract amount.

The CSBG ARRA program was important funding, that came at a vital time during the height of the recession, and came with legal authorization for these CSBG ARRA funds to be used in support of other similar programs. As only one example, the NCIDC CSBG ARRA program hired several hundred youth and adults in work experience and job readiness training programs. The NCIDC conducted monitoring visits and interviewed a cross-section of the Indian youth that were enrolled in the job readiness training programs throughout the State. The monitoring and interviews revealed that the programs that were developed and supported with CSBG ARRA funds offered life-changing opportunities to the youth that were enrolled. Almost unanimously, the youth interviewed spoke of the opportunities and training as motivating them to make better choices in their lives. Some were reenrolling in school, or community colleges. Others were picked up by their training sites and offered permanent positions. The youth we interviewed had developed, changed, or had been revitalized to create a personal development plan for their employment future. Without the fringe expenses covered by ARRA funds these other programs would not have been financially feasible, and the outcomes as projected in the CSBG ARRA plan would not have been achieved.

241 F STREET · EUREKA, CALIFORNIA 95501
PHONE: 707-445-8451 · FAX: 707-445-8479 · WEB SITE: www.ncidc.org

The NCIDC would also like to go on record with our dismay at the expressed motivation of the SCO office in this audit. During the entrance interview, the NCIDC was told that this audit was in essence not an audit of the NCIDC but an audit of the State Department of Community Services and Development (CSD). The SCO auditor informed us that their office's opinion that CSD was a poorly run organization with incompetent staff and by auditing CSD's CSBG contractors, they hoped to prove their thesis. The NCIDC has been placed in a difficult position in a dispute between two State agencies, and are being treated in a fashion we do not deserve based on our performance and adherence to all applicable laws, regulations, and guidelines.

The NCIDC stands ready continue this conversation with CSD, should it be necessary, once the finalized SCO audit is forwarded to CSD.

Respectfully,

Terry Coltra
Executive Director

PROTEUS INC.
. . . for Education, Employment, and Community Services

Administration

December 13, 2011

Jim L. Spano, Chief
Mandated Cost Audits Bureau
State Controllers' Office
Division of Audits
California State Controller's Office
3301 C Street, Suite 700
Sacramento CA 95816

Dear Mr. Spano,

This letter is in response to the findings and questioned costs submitted by your office's audit team in reviewing/monitoring Proteus, Inc 2009 CSBG ARRA contract for the program period 4/10/09 through 09/30/10.

Attached you will find Proteus, Inc.'s detailed response to the final exit report we received via e-mail on December 1, 2011.

Please feel free to contact Armie Tolentino, Chief Financial Officer, (559) 733-5423 if you have any questions.

Sincerely,

Michael E. McCann
Chief Executive Officer

Attachments

cc: Pam Harrison, CSD

MEM:AT/ch

A Proud Member of these Fine Organizations

1830 N. Dinuba Blvd. • Visalia, CA 93291 • Telephone: (559) 733-5423 • Facsimile: (559) 738-1137

Response to Findings and Questioned Costs

Background

Program Name:	2009 Community Service Block Grant ARRA
CSD Contract Number:	09F-5161
CFDA Number:	93.710
Grant Award Number:	0901CACOS2
Contract period:	July 1, 2009 through September 30, 2010
Amount Awarded:	$3,628,407
Review Period:	November 29, 2010 through September 30, 2011
Reported Expenditures:	$3,633,526 (refer to CSD 925C form)
Amount Tested:	$807,716
Amount Questioned:	$212,005

Subcontractor Services

Findings: In 13 of 26 transactions, valid timesheets were not provided to support claimed time.

Response: We do not concur. Proteus, Inc. submitted valid personnel activity reports for the following subcontractors which we believed clearly validated the total expenses charged to this program:

Delano Adult School - 14 personnel activity reports

Tulare Economic Development Corp. – 20 personnel activity reports/collection of hours

Fresno Hispanic Foundation - 10 personnel activity reports

In addition, we also noted the following:

- In 8 of 13 transactions, forms certifying overtime hours worked were provided in lieu of timesheets. These forms did not indicate all activities worked by employees during the period.

  Response: **Proteus, Inc. does not concur.** Nine (9) valid Personnel Activity Reports were submitted as follows:

Anna White – CNA instructor for the CNA night classes .....Five (5) PAR showing her **total** hours and type of activity spent on the CNA class charged to this contract and five (5) PAR as a School Nurse for the Delano School District.
Dianne Lewis – CNA instructor for the CNA night classes.....Four (4) PAR showing her **total** hours and type of activity spent on the class and charged to this contract. She was hired solely for this program.

- In 4 of 13 transactions, the timesheets did not indicate all activities worked by employees during the period or employee time declarations were submitted in lieu of timesheets. Further, participant enrollment fees were invoiced to and paid by Proteus, however, there was insufficient detail to support invoiced amounts.

  Response: **Proteus, Inc. does not concur.** Personnel Activity Reports were submitted for the ***Tulare County EDC*** reflecting total daily hours and specific activities charged to this program.

  Participants' enrollment fees were invoiced to Proteus, Inc. by the Tulare EDC supported by the actual **vendor** invoices (CSUF/Lyles Center) that delivered the Project 9 training class/session to Tulare EDC. CSUF/Lyles Center that delivered/conducted the training falls under the vendor category (refer to OMB A-133).

- In 1 of 13 transactions, no timesheets were provided to support employee time.

  Response: **Proteus, Inc. does not concur**. Personnel activity reports were submitted for the three employees of ***Fresno Hispanic Foundation*** for the month of September.

Finding: In 7 of 26 transactions, there was insufficient documentation to validate costs. Further participant fees and supplies costs were not supported.

Response: **Proteus, Inc. does not concur**. Documentation from the ***Fresno Hispanic Foundation*** in the form of invoices and billings from a *vendor* (Fresno Hispanic Chamber) were submitted.

Finding: In 6 of 26 transactions, there was no supporting documentation to validate costs.

Response: **Proteus, Inc. does not concur**. Documentation in the form of local newspapers, insurance statement of loss, police department and investigators' reports were submitted as proof of **100% building and contents fire loss** for the ***Tulare Kings Hispanic Chamber***.

Equipment

Finding: We tested four transactions totaling $278,232 of equipment costs. We question $9,170 of the $278,232 because formal CSD approval was not received to purchase embroidery equipment.

Response: **Proteus, Inc. does not concur**. Proteus exercised due diligence in requesting approval to purchase through appropriate form, via e-mail and telephone from our funding source, CSD.

Proteus was given approval verbally to purchase the equipment (Proteus was directed that a written approval was not needed). Documentation had been submitted to the SCO auditors.

Participant Eligibility

Finding: Please see SCO ARRA-Community Services Block Grant (ARRA-CSBG) Auditors' final report on page 2.

Response: **Proteus, Inc. does not concur**. SCO Auditors' observation is ***irrelevant.*** All 89 participants tested were all eligible, and no finding or questioned cost cited.

General ledger

Finding: Proteus did not apply program income towards award expenditure. Therefore, we question the amount of earned income, which totaled $4,653.00

Response: **Proteus, Inc. does not concur with this observation**. Proteus, Inc. did not report the $4,653 program income in the EARS reporting system because there is no section to report earned program income and interest income. The earned program income and interest were both reported in the Close-Out Program Income/Interests Earned Expenditure Report (Form CSD 925C), therefore, Proteus, Inc. did not constitute noncompliance with federal cost principle. Furthermore, this contract was over-expended by $58,177.32 where Proteus, Inc. spent its own unrestricted resources.

Finding: Proteus earned $466 in interest income and retained the full amount. However, interest income in excess of $250 should have been returned to the Federal awarding agency. Therefore, we question the unreturned balance of $216.

Response: Proteus, Inc. concurred with this finding. A check for $216 will be sent to CSD.

Conclusion:

Proteus, Inc. appreciates the review process and work performed by the State Controller's Office but does not agree with the interpretation applied according to the OMB circulars. Proteus, Inc. has a long history of successful program operation and results and has an exceptional Fiscal Department who stay abreast of all Federal and State mandates in these operations. Due diligence is always the primary route to a stream of valid documents which translate into total compliance of expenditures and revenue assets. Source documents, proper testament of time and activity spent on any given funded project and accurate reporting are foremost in maintenance of our current and the future status of our corporation.

Proteus, Inc. feels that these findings (disallowed charges) are not applicable or reasonable based on Proteus, Inc. collection of data, documents and verification from our sub-contractors. Therefore we request a formal appeal hearing to your findings at a higher level.

Thank you for your time and efforts, we await the next step.

Attachment 2—
Department's Response to Review Results

STATE OF CALIFORNIA – HEALTH AND HUMAN SERVICES AGENCY

EDMUND G. BROWN JR., GOVERNOR

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT
P.O. Box 1947
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August 1, 2012

Mr. Jim L. Spano, Chief
Mandated Audits Bureau, Audits Division
State Controller's Office
PO Box 942850
Sacramento, CA 94250

Dear Mr. Spano:

The Department of Community Services and Development (CSD) appreciates the opportunity to provide comments and additional information to the State Controller's Office (SCO) draft review report of the Community Services Block Grant (CSBG) American Recovery and Reinvestment Act (ARRA). CSD concurs with the recommendations in the draft report, many of which reflect process improvements CSD has already implemented and/or plans to implement to its oversight, monitoring, and auditing functions. Because CSBG ARRA was a one-time infusion of funds to CSBG, staff will make further process improvements in consideration of the recommendations identified in the report to its CSBG policies and procedures. CSD is committed to effectively and efficiently administering grants for low-income households in California.

The SCO reviewed the state-level monitoring activities of CSBG ARRA at CSD, as well as several CSBG ARRA sub-recipients. The first finding is attributed to CSD's monitoring activities during the CSBG ARRA contract period and the remaining six findings are attributed to the CSBG ARRA sub-recipients. Following each finding is the SCO recommendation(s) and CSD's response pertaining to the specific finding and recommendation(s). In its response, CSD provides comments to provide clarity and perspective to the conclusions outlined in the SCO review report.

First, there are two factual points CSD would like to clarify in the SCO report:

- Page 2, ARRA-CSBG Program – CSD did not allocate CSBG ARRA funds to the limited purpose agencies (the report states CSBG ARRA funds were allocated to limited purpose agencies).
- Page 6, Special Tests and Provisions – states were required to provide 99 percent of the CSBG ARRA grant funds as subgrants to eligible entities (the report lists 90 percent).

Finding 1 – Inadequate sub-recipient monitoring
Recommendation: We recommend that the department take action to ensure that its

monitoring activities detect and resolve instances of noncompliance with federal program requirements.

- **Finding 1a:** The department did not formally consider risk in its monitoring activities.

  Recommendations: 1) Risk should be formally defined and considered for all monitoring activities; and 2) Departmental monitoring results should be discussed regularly.

  CSD Response:
  CSD concurs with the above recommendations and will review its monitoring tools to ensure risk assessments are documented in its tools. CSD would like to note that risk assessments were conducted for CSBG ARRA sub-recipients and that the outcome of these assessments were considered in the development of the 2010 on-site monitoring schedule.

  Program Monitor Activities
  As the report points out, the primary purpose of the desk and on-site reviews is to ensure sub-recipients compliance with federal, state, and contract requirements. The desk review and on-site tools were designed to ensure compliance and not to assess risk.

  Per the CSBG Act, the state must conduct an on-site review of sub-recipients at least once every three years. In California, CSD monitors sub-recipients more frequently and conducts desk reviews in addition to on-site visits. For example, during the CSBG ARRA program period, CSD conducted on-site reviews of 42 agencies, more than 70 percent of CSBG ARRA sub-recipients. Of the 42 visits, 34 required an on-site review per the CSBG Act; however, nine agencies received an on-site review as a result of the risk assessments conducted by CSD.

  CSD conducted two risk assessments developed by staff and one required by the Office of Community Services (OCS), the CSBG federal awarding agency under the U.S. Department of Health and Human Services. The Community Services Division within CSD administers CSBG for California sub-recipients. Community Services Division program monitors first conducted a risk assessment of the CSBG and CSBG ARRA in May 2009 after receipt of all ARRA local plans developed by each sub-recipient; a second risk assessment was conducted by the Department in August 2009. These risk assessments were considered in the development of the on-site monitoring schedule to review both the CSBG and CSBG ARRA contracts. The assessments included identifying if any non-CSD funded programs had unresolved findings or terminations, active legal proceedings, perceived barriers to administering the influx of CSBG ARRA dollars, programmatic and fiscal reporting issues, and previous CSBG monitoring

and audit results. If issues were identified during this review, the sub-recipient was scheduled to receive an on-site review.

In August 2009, OCS distributed Information Memorandum 112 that outlined the risk assessment expectations for CSBG ARRA sub-recipients and states. Each sub-recipient that received the CSBG ARRA funds were required to submit to CSD a risk assessment that included a certification statement signed by the Chief Executive and the Board Chairperson of the agency. CSD reviewed the risk assessment of each agency and either concurred with the assessment or provided comments that identified additional areas of risk, after which the risk assessments were forwarded to OCS for its review. The CSBG ARRA desk review tool included a reference to the OCS risk assessment and directed the program monitor to identify the risks and any corrective actions taken.

CSD would also like to clarify the purpose of the modified desk review and post-secondary desk review tools. The intent of the modified desk review tool is to plan for on-site monitoring visits and identify if it appears a sub-recipient is not in compliance with requirements; it is not intended to determine if an on-site monitoring visit is needed. The post-secondary review was specific to CSBG ARRA and was solely intended to ensure funds were expended timely.

CSD's Audit Services Unit (ASU) Staff Member Activities
CSD complies with the federal Single Audit Act of 1984 (with amendments in 1996) and Office of Management and Budget (OMB) Circular A-133 to meet the federal requirements for all federal awards. Risk is an integral part of each individual single audit desk review. The ASU reviews single audit reports for compliance with auditing standards, corrective action on findings, and funds owed CSD resulting from unspent contract funds.

Management Activities
As stated in the report, significant turnover occurred during the grant award period among CSD's executive management, supervisory, and program monitor staff. CSD acknowledges that this can impact the communication of monitoring and audit issues. However, as the report acknowledges, CSD formally implemented monthly monitoring meetings in 2011 to improve coordination and communication related to internal and external monitoring, oversight activities, audits, enforcement actions, and investigations of CSD sub-recipients. Staff in attendance at these meetings represents all of the Department's divisions and appropriate units, including the Community Services Division, Energy and Environmental Services Division, ASU, and Executive staff (including the Director, Chief Deputy Director, Deputy Director of Administrative Services, Chief Counsel, Staff Counsel, and the Monitoring and Compliance Coordinator). The monthly meeting agenda includes discussion of all active monitoring and auditing activities. Any findings and corrective actions are discussed and implemented for follow-up discussion in subsequent meetings.

Additionally, CSD is expanding the use of a tracking system department-wide for reporting and tracking of all CSD monitoring and audit activities to improve coordination, communication, and follow-up of oversight activities.

- **Finding 1b:** The department's monitoring activities were inadequate.

  Recommendations: 1) The during-the-award monitoring should include areas of federal and award requirements; 2) Monitoring policies and procedures should be revised to ensure that they fully incorporate federal award requirements and are based on an assessment of risk; and 3) Monitoring procedures should be properly performed and documented.

  CSD Response:
  CSD agrees with the recommendations. The Community Services Division is reviewing its monitoring policies and procedures and making applicable revisions to ensure compliance with federal regulations. It is also making process improvements and providing training to program monitors to ensure that all desk reviews and on-site monitoring activities are adequately documented, cross-referenced, and the files maintained. CSD has expanded upon some of the SCO review observations below to provide a more complete and accurate presentation of CSD's monitoring activities.

  Program Monitor Activities
  It is important to note that California exceeds the federal requirements for conducting compliance reviews of CSBG sub-recipients. Federal statute requires a full on-site review of each entity at least once during every three-year period. To help ensure compliance with award requirements, California makes every effort to perform on-site reviews more often than once every three years. Additionally, California conducts an annual desk review of any sub-recipient not scheduled for an on-site review in that year. This annual review, which assesses fiscal and programmatic performance, exceeds the federal requirements. The outcome of the desk review is sent to the sub-recipient and used to inform the on-site review the following year.

  As described above, CSD developed its own risk assessment tools for CSBG ARRA. These assessments, coupled with the federal risk assessment under OCS, were used by management to help determine the sub-recipients that would receive an on-site review during the CSBG ARRA period. This resulted in a majority of the CSBG ARRA sub-recipients received an on-site review. However, due to the Department's limited resources coupled with no administrative funding to help administer CSBG ARRA, management decided to use the modified desk review to assess the performance of those sub-recipients that would not receive an on-site review.

In order to assess sub-recipient's compliance with regulations, program monitors rely on a set of procedures. An additional set of procedures was developed specific to requirements of CSBG ARRA. Together, these procedures provide guidance for program monitors to interview staff and board members to gain an understanding of the agency's administrative and programmatic systems, and then test controls and review documentation to ensure policies and procedures, fiscal and program reporting, and client files are in compliance.

Because CSBG ARRA funds were one-time federal stimulus dollars, any corrective actions identified as the result of a review that impacted administrative or programmatic functions were included in the CSBG monitoring report. This process allowed staff to work more efficiently with sub-recipients to resolve findings that impacted CSBG activities after the CSBG ARRA contract period ended. For those findings specific to CSBG ARRA, such as accurately reporting jobs created and retained, corrective actions were identified in the CSBG ARRA monitoring report.

CSD would also like to correct the understanding of some of the concerns SCO had in its review of the on-site monitoring reports, including program monitors' use of the modified desk review tool noted in the pre-desk review observations. The intent of the modified desk review tool is not to determine if an on-site review should be conducted; it is intended to identify a material breach of the contract. In the five examples SCO points out, program monitors identified in other assessments that an on-site review should be performed. In other observations, SCO did not review the CSBG ARRA and CSBG monitoring reports as one combined report. As stated above, the findings and corrective actions were primarily reported in the CSBG monitoring report to ensure the follow-up on corrective actions were reviewed by CSD after CSBG ARRA ended.

Additionally, the results of the post-secondary reviews were reported to management and were documented. Program monitors compared reported spending to budgeted award expenditures each month during the award term and regularly shared this with management, which management then shared with sub-recipients. For example, on April 27, 2010, a letter signed by the Community Services Division Manager was sent to each sub-recipient notifying them of its total award spent as of April 2010, the percentage of the allocation expended, and a request for a spending plan. A letter signed by CSD's Director at the time was distributed July 2, 2010 updating sub-recipients on its expenditure rate and requested that sub-recipients with lower rates of reporting submit updated spending plans to CSD no later than August 1, 2010.

Finally, CSD acknowledges that our review of the close out report could be improved to ensure that errors on the reports are identified and corrected on a timely basis. Community Services Division staff and sub-recipients will receive training in this area and the close out forms and instructions are under review to

assist sub-recipients in accurately completing the forms. However, it is important to note that the close out report is not an official part of CSD's accounting records and the errors found by SCO did not impact the accurate reporting of expenditures in CSD's accounting records or our reporting of grant expenditures to the OCS.

ASU Staff Member Activities
CSD complies with the federal Single Audit Act of 1984 (with amendments in 1996) and OMB Circular A-133 to meet the federal requirements for all federal awards.

- **Finding 1c:** The department was inconsistent in its monitoring activities.

  Recommendations: 1) The department should ensure that it provides sub-recipients with consistent guidance and expectations concerning compliance with federal and award requirements; 2) Organizational functions engaged in monitoring should have clear roles and responsibilities. Further, this understanding should be documented and consistent with each sub-unit's mission, goals, objectives and staff duties; and 3) the department should ensure that the removal of any high-risk designation is supported by monitoring activities.

  CSD Response:
  CSD concurs with the above recommendations.

  Program Monitor Activities:
  SCO identified two instances in which guidance may have been inconsistent or misunderstood by sub-recipients. In the first instance cited by SCO, specific guidance was provided to a sub-recipient that services funded by CSBG ARRA must stop by the end of the contract period. CSD clearly provided accurate guidance in two emails to the sub-recipient and guidance that appears to have been misunderstood by the sub-recipient in a third email. In the second instance, CSD identified through the sub-recipient's desk review that equipment totaling $9,170 was not approved and subsequently the Department approved the purchase because it was in the sub-recipient's original contract. CSD will continue to provide training to program monitors to ensure sub-recipients are provided with consistent guidance and expectations concerning compliance with federal and award requirements. CSD will also continue to clarify guidance with our federal partners and local sub-recipients.

  ASU Staff Member Activities:
  The ASU has a dual role in CSD to meet the operational and program needs of a department that administers federal grants. The ASU primarily performs what the audit profession defines as "external" audit activities of the sub-recipients of federal grant funds. In addition, some of the ASU activities, as described in the

duty statements could be categorized as "internal" audit activities. As such, the ASU has frequent communications with executive and program staff to ensure ASU's role is consistent with department priorities. This hybrid approach is similar to many other state departments to leverage limited audit resources to meet department needs. CSD does plan to review and document the role of the ASU and update duty statements and organizational placement of the ASU, as needed.

Management Activities:
CSD will ensure that any high risk designation or removal is supported by monitoring activities.

Finding 2 – Unallowable or inadequate documentation supporting salary and benefit costs
Recommendations: We recommend that 1) Sub-recipients document salaries and benefits in accordance with federal requirements; and 2) Observe agreements with federal agencies when charging expenses to grant awards.

CSD Response:
CSD concurs with the above recommendation, but disagrees with the interpretation of certain requirements relating to support of salaries and wages.

SCO took exception to several contractor timesheets, stating that CSBG ARRA was not identified as the program the employee's time was being charged to. In one instance, the timesheet was for a teacher that reported her total hours worked for the day to teaching activities. SCO took exception to this timesheet, stating the teacher should have reported her time to the CSBG ARRA funding source, instead of reporting her time to teaching activities. OMB 122, Attach B, 8, M, 2 requires, "Reports reflecting the distribution of activity of each employee must be maintained."

CSBG does not function solely as a stand-alone program. Per OCS Information Memorandum 37, which references the Community Services Block Grant Act of 1998, 42 USC § 9901-9920 (1999), CSBG funds may supplement other grant awards by paying for planning, coordination, capacity building, expansion and enhancement of existing services and programs that already receive federal, state, local or private funding for those activities. CSBG can support the creation of new programs and services, augment existing programs and services, and support the organizational infrastructure required to enhance and coordinate the multiple programs and resources that address poverty conditions in communities.

Community Services Division staff is working with the sub-recipients that SCO identified to ensure the appropriate corrective actions are taken. Staff will also continue to verify sub-recipients have appropriately documented salaries and benefits during monitoring visits.

Prior to the next contract year, CSD will provide written guidance and webinar training to all CSBG sub-recipients to help ensure proper compliance with the documentation of salaries and benefits required per OMB Circular A-87 and OMB Circular A-122. Written guidance and training will include a review of OMB A-122, Appendix A, Allocation of Indirect Costs and Determination of Indirect Cost Rates (2), OMB A-122, Appendix B, Selected Items of Cost (8)(m), and OMB A-122, Appendix B, Selected Items of Cost (17)(a). The guidance will include allocation of CSBG employee salaries between administrative and program costs and use of federally approved staff fringe benefit rates.

Finding 3 – Inadequate sub-recipient monitoring of partner agencies
Recommendation: We recommend that sub-recipients monitor subgrantees for compliance with federal requirements.

CSD Response:
CSD concurs with the recommendation and will work with its federal and local partners to ensure compliance with federal requirements. Per the Community Services Block Grant Act of 1998, 42 USC § 9901-9920 (1999), the direct charge of organizational infrastructure services and activities is allowable.

Community Services Division staff is working with the sub-recipients that SCO reported as having subgrantees that were noncompliant with OMBs to ensure that the reported issues have been corrected. CSD will also implement procedures in its monitoring tool that facilitates reviewing the sub-recipients monitoring process of subgrantees.

CSD will issue guidance to CSBG sub-recipients that clarifies language in the CSBG Act and OMB Circulars and provides guidance for the allowability of direct program and administrative costs. Prior to the next contract period, CSD will provide written guidance to those CSBG sub-recipients that subgrant. The written guidance will include a review of the requirements for sub-recipients to monitor subgrantees and their activities to assure compliance with CSD contractual requirements, OMB A-122 and OMB A-87. The written guidance will also include general guidelines regarding financial management, performance assessment, procurement standards, file maintenance, reporting requirements, and close-out processes with special emphasis on the following: OMB A-122, Appendix A, General Principles, and OMB A-87, General Principles for Determining Allowable Costs; OMB A-122, Appendix B, Selected Items of Cost, and OMB A-87, Appendix B, Selected Items of Cost.

Finding 4 – Costs incurred or liquidated outside the period of availability
Recommendation: We recommend that sub-recipients incur expenditures within the period of availability and liquidate costs within the timeframes specified by federal requirements.

CSD Response:
CSD concurs with the recommendation. CSD has identified that most of the services

were provided within the period of availability, and is working with OCS, the federal awarding agency, to determine resolution of funds that were liquidated or incurred outside the period of availability. CSD will continue to notify sub-recipients of requirements for the expending, obligating, and liquidating of CSBG funds through the contract, contract amendments, and other notices.

CSD would like to expand upon the criteria listed by SCO and clarify that the original CSBG ARRA contract stated that funds were to be "spent" on or before the end of the contract period. However, to align with federal guidance, the contract was amended in August 2010 to state that the full contract allocation was to be "obligated" by September 30, 2010, and expended by December 31, 2010, which the SCO report notes on page 6 under "Period of Availability of Federal Funds."

Finding 5 – Unallowable equipment and operating expenses
Recommendation: We recommend that reported expenditures are incurred within the terms of awards and are properly supported.

CSD Response:
CSD concurs with the above recommendation that sub-recipients should comply with applicable federal requirements, which include federal and state statutes, OMB Circulars, and CSD contractual requirements.

As indicated earlier, per the CSBG Act, the direct charge of organizational infrastructure services and activities is allowable. CSD is working with our federal partners on clarification regarding how the OMB Circulars apply to the unique federal requirements of the CSBG funds. We will provide guidance to sub-recipients to clarify language in the CSBG Act and OMB Circulars regarding the allowability of direct program and administrative costs after further discussion with OCS.

Finding 6 – Services provided to ineligible participants
Recommendation: We recommend that sub-recipients properly perform and document its assessment of participant eligibility before providing services.

CSD Response:
CSD concurs with the above recommendation. CSD would like to point out that SCO only reported eligibility documentation issues at one of the nine sub-recipients audited. Community Services Division staff is working with the sub-recipient to review documentation to ensure eligibility and resolve any questioned costs. Prior to the next contract period, staff will also provide training and technical assistance regarding verification of client eligibility to the sub-recipient. Community Services Division staff will also continue to verify sub-recipients have appropriately documented clients are eligible prior to receiving services during monitoring visits.

Finding 7 – Reported expenditures not reconciled with accounting records and returnable interest not reported

Recommendations: We recommend that sub-recipients 1) Perform regular reconciliations of award expenditures to their accounting records to ensure proper reporting of expenditures; and 2) Return the interest income in excess of $250 to the awarding agency.

CSD Response:
CSD concurs with the above recommendation that sub-recipients perform regular reconciliations of award expenditures to their accounting records. The sub-recipient that SCO reported as not having reconciled reported expenditures with the accounting records has returned $24,272 to CSD; and the sub-recipient that had excess interest earned on advances over $250 has returned $216 to CSD.

Again, CSD appreciates the opportunity to provide input to the SCO review report. Your recommendations will assist us in our commitment to serving low-income Californians. If you have any questions, please contact me or Linné Stout, Chief Deputy Director, at (916) 576-7110.

Sincerely,

JOHN A. WAGNER
Director

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