January 10, 2011

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

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

SUBJECT: Results of Limited Scope Review at Capital Area Community Action Agency, Inc. (A-04-10-01083)

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


Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-04-10-01083 in all correspondence.

Attachment
Department of Health & Human Services
OFFICE OF INSPECTOR GENERAL

RESULTS OF LIMITED SCOPE REVIEW AT CAPITAL AREA COMMUNITY ACTION AGENCY, INC.

Daniel R. Levinson
Inspector General
January 2011
A-04-10-01083
The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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

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

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Notices

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

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

BACKGROUND

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

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

Florida’s Department of Community Affairs (DCA) acts as the lead agency for purposes of carrying out State activities for the CSBG program. DCA is responsible for approving the State’s CAA Recovery Act grant applications and monitoring the CAAs for compliance with program regulations. DCA was awarded with an additional $29,060,460 in Recovery Act funds for the State of Florida’s CSBG program.

Capital Area Community Action Agency, Inc. (Capital Area), a private, nonprofit organization, provides services to households throughout Leon, Calhoun, Jefferson, Franklin, Gadsden, Gulf, and Liberty counties in Florida. During fiscal year (FY) 2009, DCA awarded Capital Area $534,852 in CSBG grant funds and a Recovery Act grant award totaling $872,912. For FY 2009, Capital Area received total Federal grant awards of $6,535,073.

OBJECTIVE

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

SUMMARY OF FINDINGS

Based on our assessment, Capital Area is financially viable and has the capacity to manage and account for Federal funds and is capable of operating the CSBG program in accordance with Federal regulations. However, we noted weaknesses related to: inventory records, ability to spend funds timely, and certifications that principals, including Board of Directors members, are suitable for service.
RECOMMENDATIONS

We recommend that DCA consider the information presented in this report in assessing Capital Area’s ability to operate the CSBG program in accordance with Federal regulations.

CAPITAL AREA COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments to our draft report, Capital Area disagreed with our findings. The complete text of Capital Area’s comments is included as the Appendix.

The Executive Director stated that Capital Area kept its inventory records in an excel file and that all issues left undone by the former Inventory Manager were corrected immediately. However, Capital Area did not provide the inventory records we requested and it did not provide evidence that the Agency had conducted an inventory.

Capital Area confirmed that a large percentage of funds were unexpended at the time of our site review. However, Capital Area estimates it will expend all but 9 percent of the funds by the close of the grant period.

Capital Area stated that it was not aware of the requirement to complete criminal background checks on all of its Board members. However, in the CSBG Recovery Act contract which was signed by the Executive Director, the State required certification that Capital Area’s principals had not been convicted of or had a civil judgment rendered against it (them) for commission of fraud or a criminal offense regarding a public transaction.

Accordingly, we maintain that our findings are valid.
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INTRODUCTION

BACKGROUND

Community Services Block Grant Program

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

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Florida’s Department of Community Affairs

Florida’s Department of Community Affairs (DCA) acts as the lead agency for purposes of carrying out State activities for the CSBG program. DCA is responsible for approving the State’s CAA Recovery Act grant applications and monitoring the CAAs for compliance with program regulations. DCA was awarded with an additional $29,060,460 in Recovery Act funds for the State of Florida’s CSBG program.

Capital Area Community Action Agency, Inc.

Capital Area Community Action Agency, Inc. (Capital Area), a private, nonprofit organization, provides services to households throughout Leon, Calhoun, Jefferson, Franklin, Gadsden, Gulf, and Liberty counties in Florida. During fiscal year (FY) 2009, DCA awarded Capital Area $534,852 in CSBG grant funds and a Recovery Act grant award totaling $872,912. For FY 2009, Capital Area received total Federal grant awards of $6,535,073.

Requirements for Federal Grantees

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete reporting of grant related financial data, effective control over grant funds, and allocation of costs to all benefitting programs. In addition, grantees must establish written procurement procedures. Grantees are also required to maintain inventory control system and take periodic physical inventory of grant-related equipment. In addition, pursuant to 45 CFR § 74.27, the
allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of Office of Management and Budget Circular A-122, Cost Principles for Nonprofit Organizations. The CSBG Act establishes the CSBG program and sets the requirements and guidelines for CSBG funds.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

We conducted a limited review of Capital Area’s financial viability, financial management system, and related policies and procedures. We did not perform an overall assessment of Capital Area’s internal control structure. We reviewed only the internal controls that pertained directly to our objectives. Our review period was July 1, 2009, through September 30, 2010.

We conducted our fieldwork at Capital Area’s offices in Tallahassee, Florida, during June 2010.

Methodology

To accomplish our objective, we:

- confirmed that Capital Area is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Capital Area’s application and implementation of the grant awards for the Recovery Act funding;
- reviewed Capital Area’s audited financial statements and supporting documentation for the period of January 1, 2006, through December 31, 2008;
- reviewed the findings related to the most recent State review;
- reviewed Capital Area policies and procedures related to the CSBG program;
- reviewed Capital Area’s bylaws, minutes from the Board of Directors’ (Board) meetings, composition of the Board, and organizational chart; and
- performed audit steps to assess the adequacy of Capital Area’s current financial systems.
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

**FINDINGS AND RECOMMENDATIONS**

Based on our assessment, Capital Area is financially viable, has the capacity to manage and account for Federal funds, and is capable of operating the CSBG program in accordance with Federal regulations. However, we noted weaknesses related to: inventory records, ability to spend funds timely, and certifications that principals, including Board members, are suitable for service.

**INVENTORY RECORDS**

Pursuant to 45 CFR part 74, Capital Area’s policy requires an annual inventory of assets. In addition, the Inventory Manager is required to maintain a detailed inventory record. However, Capital Area was unable to provide inventory records for any inventory other than the recently purchased Recovery Act inventory because the employee who maintained the inventory records was terminated, and the records were misplaced. Capital Area stated that it is in the process of reconstructing its inventory records and that an outside audit firm has inventory records for assets exceeding $5,000. Without annual inventories and current inventory records, Capital Area risks inventory being lost or stolen.

**INABILITY TO EXPEND FUNDS**

Pursuant to the Recovery Act (P.L. No. 111-5), the period of funds availability ends September 30, 2010. If CSBG Recovery Act funds are not spent by September 30, 2010, funds must be returned to DCA, and intended recipients may not receive the services as envisioned in the Recovery Act.

At the time of our fieldwork, Capital Area had been reimbursed for $331,161, or 38 percent of its available funding of $872,912. Capital Area had until September 30, 2010, to obligate the $872,912 and until December 29, 2010, to expend it. The Executive Director stated that Capital Area would do its best to expend all Recovery Act funds. However, she also stated that Capital Area received its award 2 months after the contract’s effective date of July 1, 2009. She said that the agency is normally underfunded, and she hoped that it would be granted an extended period during which to use those funds. Capital Area has adequate controls to assure unexpended funds are returned to the State.

**CERTIFICATION**

According to Federal regulations (2 CFR part 180), ACF required DCA to obtain a certification that Capital Area and its principals had not, within a 3-year period preceding the proposal date, been convicted of or had a civil judgment rendered against them for commission of fraud or a
criminal offense in connection with obtaining or performing a public transaction. Federal regulations require agencies to obtain this information from grantees and sub-grantees. (Capital Area is a sub-grantee.) The agencies can obtain the information in a number of ways, but ACF required the State to obtain a certification. Capital Area has obtained background checks for its employees but not for its Board members because it did not consider its Board members to be principals. If Capital Area does not obtain background checks for members of its Board, it could be debarred from receiving Federal funding.

RECOMMENDATIONS

We recommend that DCA consider the information presented in this report in assessing Capital Area’s ability to operate the CSBG program in accordance with Federal regulations.

CAPITAL AREA COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Capital Area disagreed with our findings. A summary of Capital Area’s comments and our response to those comments follows. The complete text of Capital Area’s comments is included as the Appendix.

Inventory Records

Capital Area acknowledged that it is required to maintain an annual inventory of assets and stated that the mandated inventory is usually capitalized so their auditor has a copy on file for depreciation purposes. Capital Area also stated they maintain their own records of the mandated inventory in an excel file. Capital Area said the list was not provided to the OIG auditors, but would have been if asked. Capital Area also stated it maintains inventory for items less than $5,000 and added that it had corrected any inventory issues related to the former Inventory Manager who was terminated two years ago.

Capital Area’s response was vague when referring to the “mandated inventory”, never specifically stating a current inventory was done during our audit period. Further, we requested any and all inventory records and we were not provided any records or other evidence that the Agency had conducted an inventory. Accordingly, we maintain that our finding is valid.

Inability to Spend Funds

Capital Area confirmed that a large percentage of funds was unexpended at the time of our site review. However, Capital Area estimates it will expend all but 9 percent of the funds by the close of the grant period.

Certification

Capital Area stated that it was not aware of the requirement to complete criminal background checks on all of its Board members. The Executive Director stated that the State had never required it or any other Florida CAA to complete criminal background checks on its Board members and that DCA continues to research this issue with its legal counsel.
The State is required by regulation to verify that its sub-recipients are not excluded or disqualified from Federal awards. The State addressed this issue by requiring its recipients, including Capital Area, to certify, by signing the agreement, that it and its principals are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by a Federal department or agency and that it and its principals have not, within the previous 5 years, been convicted of or had a civil judgment rendered against it (them) for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public transaction or contract under public transaction.

Federal regulations (2 CFR § 180.995(b)) define a principal as “[a] consultant or other person, whether or not employed by the participant or paid with Federal funds, who … [i]s in a position to influence or control the use of [Federal] funds.”

Members of Capital Area’s Board of Directors are in a position to influence the use of Federal funds. Because Capital Area does not require background checks on its Board members, there is no certification that they have not been convicted of or had a civil judgment rendered against them in connection with obtaining, attempting to obtain, or performing a public transaction. This lack of certification could lead to Capital Area being debarred from receiving Federal funds.

Finally, Capital Area stated that the report should be updated to reflect a more accurate picture of the Agency’s management of federal funds, and that the auditors should be required to do an exit conference on site at the conclusion of their work.

Contrary to what Capital Area’s response implies, we provided Capital Area with the status of the audit and explained our preliminary findings while on site. Further, we believe our findings are valid; Capital Area provided no additional information to warrant any revisions to our report.
APPENDIX
APPENDIX: CAPITAL AREA COMMUNITY ACTION AGENCY, INC. COMMENTS

Capital Area Community Action Agency, Inc
Tallahassee, Florida
November 3, 2010

Response to Department of Health and Human Services Report
Number: A-04-10-01083
Submitted by
Dorothy Inman-Johnson
Executive Director

Inventory Records

Pursuant to 45 CFR part 74, Capital Area’s policy requires an annual inventory of assets. In addition, the Inventory Manager is required to maintain a detailed inventory record. However, Capital Area was unable to provide inventory records for any inventory other than the recently purchased Recovery Act inventory because the employee who maintained the inventory records was terminated and the record misplaced. Capital Area states that it in the process of reconstructing its inventory records and that an outside audit firm has inventory records for assets exceeding $5,000. Without annual inventories and current inventory records, Capital Area risks inventory being lost or stolen.

Response: As mentioned in the agency’s Accounting policies and procedures manual, Capital Area Community Action Agency, Inc is required to maintain an annual inventory of assets. This consists of the mandated inventory for Federal grants for assets above $5,000 and inventory of items less than $5000 with a useful life of more than one year and which is not classified as supplies.

The mandated inventory is usually capitalized so our auditor has a copy. The audit firm maintains it in its file for depreciation purposes. No inventory records at $5000 or any other number has ever been contracted out to any other entity. The auditor obviously misinterpreted statement that “the audit firm maintains a copy in its file for depreciation purposes”. That’s a legitimate part of the annual audit process. We have our own records of the mandated inventory in an excel file. Since most the items in that list were purchased from Head Start funds and none from CSBG, and the monitoring team was reviewing CSBG funds, the inventory list was not provided to the team; nor did the team ask for the inventory list. We would have provided the list if we were asked.

We maintain inventory for items less than $5000 mainly to safeguard our assets and for insurance purposes. did make reference to the fact that a former terminated Inventory Manager had a partial inventory listing of items. That person was terminated over two years ago, and any issues left undone by her were corrected immediately. We were able to substantiate the items on the inventory list put up by our Ex-Inventory Manager when we started reconstructing the inventory by searching our MIP accounting database, after her departure more than two years.

Office of Inspector General - The deleted text has been redacted because it is personally identifiable information.
ago. There are no deficiencies with our records or process; and there were none at the time your team audited our Agency.

We think we are at low risk of inventory loss or theft due to the nature of our business and the fact that all purchased equipment is used to the fullest and properly accounted for as our Inventory records prove. Therefore, we strongly disagree with the finding of your audit team in this report.

INABILITY TO EXPEND FUNDS

Though a large portion of Capital Area CAA’s CSBG-ARRA funds were unexpended at the time of the site review in mid June 2010, as of September 30, 2010 less than $100,000 remained. Since we have not reached the close out deadline and the final FSR calculations have not been completed, we can only provide an estimate at this time. Based on our informal calculations, we will return between $78,000 and $90,000 to HHS when the closeout is completed. Therefore, the correct percentage of the funds to be returned is at 8.7 to 9%. The other funds were spent for job training activities (CNA, and Office Skills/ Computer classes, micro-enterprise training and business start up resources, etc.) and on-the-job training activities and placements of clients with employers in the six counties served.

This is proof that we were and continue to be fully capable of managing the CSBG grant funds entrusted to our Agency. We have been very good stewards of these federal resources.

CERTIFICATION

We are in discussions with the Florida Department of Community Affairs management team about your finding that 2 CFR part 180 requires Capital Area CAA to complete criminal background checks on all of its Board members, and failure to “obtain background checks for members of its Board could result in the Agency being debarred from receiving federal funds”. Neither DCA, nor this Agency is aware of such a requirement; and the state has never required our Agency or any other Florida CAA to complete criminal background checks on its volunteer Board members who have no access to the operational systems of the Agency. The Governing Board is a policy making body responsible for ensuring staff complies with all applicable regulations through its direct oversight and supervision of the Executive Director.

Your report correctly notes that the Agency completes criminal background checks on all employees and extends background checks to its contractors. The Florida Department of Community Affairs has been unable to find anything in the regulation you quoted which specifically requires recipient agencies of CSBG to complete criminal background checks on its volunteer Board members. DCA is continuing to research this with its legal counsel.

Finally, though your summary statement about our Agency’s capacity and ability seems to compliment us on doing a good job, “…based on our assessment, Capital Area is financially viable and has the capacity to manage and account for federal funds and is capable of
operating the CSBG program…”, other statements in the report which question our ability based on unsubstantiated and faulty data in your report was unfair and offensive to me and my staff.

We are, therefore, requesting that the report be updated to present a more accurate picture of the Agency’s excellent track record of managing these and other federal grant funds over more than 4 decades. The inaccuracies in this report makes the best case I can think of for auditors being required to do an exit conference on site at the conclusion of their monitoring process. It is the best way to clarify information and ensure the federal resources are protected, and at the same time, the Agency is dealt with in an objective and fair manner. Thank you.