

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**OREGON CLAIMED SOME
POTENTIALLY UNALLOWABLE
COMMUNITY SERVICES BLOCK
GRANT COSTS FOR MULTNOMAH
COUNTY'S EXPENDITURES
UNDER THE RECOVERY ACT**

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Lori A. Ahlstrand
Regional Inspector General

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A-09-11-01013

Office of Inspector General

<https://oig.hhs.gov>

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EXECUTIVE SUMMARY

BACKGROUND

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

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

In the State of Oregon, Oregon Housing and Community Services (State agency) was responsible for approving CAAs' applications for CSBG Recovery Act funds and monitoring CAAs' compliance with Federal requirements. Under the Recovery Act, the State agency was awarded approximately \$8 million in additional CSBG funds for FYs 2009 and 2010.

Multnomah County's Department of County Human Services (County), located in Portland, Oregon, is a local governmental CAA that serves families in poverty, homeless youth and families, seniors, and other groups in need. For the period July 1, 2009, through September 30, 2010, the State agency awarded the County \$1,325,306 in CSBG Recovery Act funds (the award). The County expended 95 percent of the award through agreements with nine subcontractors and expended the remaining 5 percent on indirect administrative costs and a small amount of direct costs. We reviewed the amounts claimed by the County and its two largest subcontractors, totaling \$661,482. These subcontractors were both nonprofit organizations: Human Solutions, Inc. (Human Solutions), and Impact Northwest, Inc. (Impact Northwest).

By accepting grant awards, States agree to comply with Federal regulations governing the administration of the grants, including compliance with various cost principles. Federal law requires that States receiving CSBG funds ensure that grant fund recipients comply with Office of Management and Budget cost and accounting standards. Governmental CAAs are subject to 45 CFR part 92, and nonprofit CAAs are subject to 45 CFR part 74. Both parts 92 and 74 state that the allowability of costs will be determined in accordance with the cost principles that apply to the type of entity receiving the funds. The County is governed by the grant administration rules at 45 CFR part 92. Additional Federal regulations at 45 CFR § 92.22(b) state that the cost principles at 2 CFR part 230, *Cost Principles for Non-Profit Organizations*, apply to nonprofit entities other than institutions of higher learning and hospitals.

OBJECTIVE

Our objective was to determine whether the CSBG costs that the State agency claimed for the County's program expenditures were allowable in accordance with applicable Federal requirements.

SUMMARY OF FINDINGS

Of the \$661,482 of CSBG costs that we reviewed, \$545,571 was allowable in accordance with applicable Federal requirements. The remaining \$115,911 consisted of \$824 for the subcontractors' mortgage-related and food/entertainment costs and the County's indirect costs that we determined to be unallowable and \$115,087 of subcontract and indirect costs that we set aside for ACF resolution. Specifically, we set aside:

- \$60,088 of salaries and wages claimed for the two subcontractors because the costs were based on budget estimates, not actual employee time and effort, and/or lacked adequate supporting documentation;
- \$18,528 of fringe benefits claimed for the two subcontractors that were applicable to the set-aside salaries and wages;
- \$2,289 of facilities costs claimed for Impact Northwest because the costs were allocated based on budget estimates, not actual costs;
- \$750 of client assistance costs claimed for Human Solutions because the costs lacked adequate supporting documentation; and
- \$33,432 of indirect costs, consisting of \$27,350 claimed for the two subcontractors and \$6,082 claimed by the County that was applicable to the two subcontractors' set-aside costs.

The State agency claimed these costs because it did not have adequate monitoring procedures on subcontracts and allocation of costs to ensure that the CSBG costs claimed for the County's program expenditures were allowable in accordance with applicable Federal requirements.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government \$824 for unallowable costs;
- work with ACF to determine the allowability of \$115,087 that we set aside and refund to the Federal Government any amount determined to be unallowable;
- work with the County to ensure that all of the County's subcontractors charge salaries and wages based on actual employee time and effort, allocate facilities and indirect costs

based on actual costs, and maintain adequate documentation supporting the costs claimed; and

- strengthen monitoring procedures on subcontracts and allocation of costs to ensure that costs claimed are allowable in accordance with applicable Federal requirements.

DEPARTMENT OF COUNTY HUMAN SERVICES COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the County stated that it did not contest our finding on unallowable costs and had refunded the identified unallowable costs as well as additional unallowable costs for subcontractors that we did not review. The County stated that it believed that the entire amount set aside for ACF resolution was allowable. The County identified an additional set-aside amount for subcontractors that we did not review but stated that it believed this amount was allowable. In addition, the County detailed efforts that it had taken to strengthen its monitoring procedures on subcontracts and allocation of costs. Nothing in the County's comments caused us to revise our findings.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with all of our recommendations and provided information on corrective actions taken. Regarding our recommendation that the State agency work with ACF to determine the allowability of the \$115,087 that we set aside, the State agency commented that the County believes the set-aside amount is allowable but that it would work with both ACF and the County, if deemed necessary, to determine the allowability of the amount.

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INTRODUCTION

BACKGROUND

American Recovery and Reinvestment Act

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

Community Services Block Grant Program

The CSBG program was reauthorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998 (CSBG Act), P.L. No. 105-285, to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF), Office of Community Services, administers the CSBG program.

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

Oregon Housing and Community Services

In the State of Oregon, Oregon Housing and Community Services (State agency) was responsible for approving CAAs' applications for CSBG Recovery Act funds and monitoring CAAs' compliance with Federal requirements. Under the Recovery Act, the State agency was awarded \$7,989,158 in CSBG funds for FYs 2009 and 2010.

Multnomah County, Department of County Human Services

Multnomah County's Department of County Human Services (County), located in Portland, Oregon, is a local governmental CAA that serves families in poverty, homeless youth and families, survivors of domestic violence, seniors, adults with disabilities, veterans, people recovering from mental illness and addiction, and people with developmental disabilities. The County also provides school-based services to children and families.

For the period July 1, 2009, through September 30, 2010, the State agency awarded the County \$1,325,306 in CSBG Recovery Act funds (the award). The County expended 95 percent of the

award through agreements with nine subcontractors and expended the remaining 5 percent on indirect administrative costs and a small amount of direct costs.

The County's two largest subcontractors (in terms of amounts of award funding received) were Human Solutions, Inc. (Human Solutions), a 501(c)(3) nonprofit organization that received \$417,082, and Impact Northwest, Inc. (Impact Northwest), a private nonprofit organization that received \$173,901.

Federal Requirements for Grantees

By accepting grant awards, States agree to comply with Federal regulations governing the administration of the grants, including compliance with various cost principles. Section 678D(a)(1)(B) of the CSBG Act requires that States receiving CSBG funds ensure that grant fund recipients comply with Office of Management and Budget (OMB) cost and accounting standards. CAAs that are State, local, and tribal governments are subject to 45 CFR part 92, and CAAs that are nonprofit entities are subject to 45 CFR part 74.¹ Both parts 92 and 74 state that the allowability of costs will be determined in accordance with the cost principles that apply to the type of entity receiving the funds. The County is governed by the grant administration rules at 45 CFR part 92. Additional Federal regulations at 45 CFR § 92.22(b) state that the cost principles at 2 CFR part 230, *Cost Principles for Non-Profit Organizations*, apply to nonprofit entities other than institutions of higher learning and hospitals.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the CSBG costs that the State agency claimed for the County's program expenditures were allowable in accordance with applicable Federal requirements.

Scope

We reviewed \$661,482 of the State agency's claim of \$1,325,306 for the County's program expenditures funded by the Recovery Act award for the period July 1, 2009, through September 30, 2010. Specifically, we reviewed \$590,983 claimed by the County for the expenses of its two largest subcontractors, Human Solutions and Impact Northwest, and \$70,499 claimed by the County for salaries and wages, fringe benefits, and indirect administrative costs. We did not review the remaining \$663,824, which represented the subcontract costs for the County's seven other subcontractors.

We did not review the overall internal control structure of the State agency or the County. We limited our review of internal controls to those that were significant to the objective of our audit.

¹ The regulations at 45 CFR parts 92 and 74 are HHS's codifications of OMB Circulars A-102 and A-110, respectively.

We conducted our audit from August 2011 to June 2012 and performed fieldwork at the office of the State agency in Salem, Oregon, and the offices of the County, Human Solutions, and Impact Northwest in Portland, Oregon.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed contractual and supplemental agreements between the State agency and the County for the period July 1, 2009, through September 30, 2010;
- reviewed contractual and supplemental agreements between the County and its two largest subcontractors, Human Solutions and Impact Northwest, for the period July 1, 2009, through September 30, 2010;
- reviewed the County's board of directors' meeting minutes;
- reviewed the accounting policies and procedures of the County, Human Solutions, and Impact Northwest;
- reviewed the cost allocation methodologies for facilities and/or indirect costs for the County, Human Solutions, and Impact Northwest;
- interviewed State agency and County officials to gain an understanding of their respective fiscal and program monitoring procedures;
- interviewed County, Human Solutions, and Impact Northwest officials to gain an understanding of the costs charged to the award;
- reviewed the State agency's and County's fiscal and program monitoring reports;
- reviewed correspondence between the State agency and County officials;
- reviewed the County's audited financial statements for the periods July 1, 2007, through June 30, 2008; July 1, 2008, through June 30, 2009; and July 1, 2009, through June 30, 2010;
- reconciled the County's costs that the State agency claimed under the award with the County's general ledger;
- analyzed the general ledgers of the County, Human Solutions, and Impact Northwest to identify large, unusual, and/or recurring transactions and examined, on a test basis,

evidence supporting selected transactions for claimed costs to determine their allowability;² and

- discussed our findings with State agency and County officials.

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

FINDINGS AND RECOMMENDATIONS

Of the \$661,482 of CSBG costs that we reviewed, \$545,571 was allowable in accordance with applicable Federal requirements.³ The remaining \$115,911 consisted of \$824 for the subcontractors' mortgage-related and food/entertainment costs and the County's indirect costs that we determined to be unallowable and \$115,087 of subcontract and indirect costs that we set aside for ACF resolution. Specifically, we set aside:

- \$60,088 of salaries and wages claimed for the two subcontractors because the costs were based on budget estimates, not actual employee time and effort, and/or lacked adequate supporting documentation;
- \$18,528 of fringe benefits claimed for the two subcontractors that were applicable to the set-aside salaries and wages;
- \$2,289 of facilities costs claimed for Impact Northwest because the costs were allocated based on budget estimates, not actual costs;
- \$750 of client assistance costs claimed for Human Solutions because the costs lacked adequate supporting documentation; and
- \$33,432 of indirect costs, consisting of \$27,350 claimed for the two subcontractors and \$6,082 claimed by the County that was applicable to the two subcontractors' set-aside costs.

The State agency claimed these costs because it did not have adequate monitoring procedures on subcontracts and allocation of costs to ensure that the CSBG costs claimed for the County's program expenditures were allowable in accordance with applicable Federal requirements.

² We determined that the number, dollar amounts, and types of transactions selected were sufficient for determining allowability of costs based on the adequacy of supporting documentation.

³ The allowable costs consisted of \$481,198 claimed for the County's subcontract costs, \$63,934 claimed for the County's indirect costs, and \$439 claimed for the County's salaries and wages and fringe benefits.

See Appendix A for details on the costs that the State agency claimed for the County's expenditures and the results of our audit (i.e., allowable, unallowable, and set-aside costs).

SUBCONTRACTOR COSTS

Of the \$590,983 of costs claimed by the County for the two largest subcontractors, \$481,198 was allowable in accordance with Federal requirements. The remaining \$109,785 consisted of \$780 that we determined was unallowable and \$109,005 that we set aside for ACF resolution. See Appendix B for details on the subcontract costs claimed for Human Solutions and Impact Northwest and the results of our audit (i.e., allowable, unallowable, and set-aside costs).

Salaries and Wages

Federal cost principles (2 CFR part 230, Appendix A, section A.2.) state that to be allowable under an award, costs must be reasonable for the performance of the award and adequately documented. In addition, 2 CFR part 230, Appendix B, section 8.m., states that charges to awards for salaries and wages must be supported by personnel activity reports that reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

Of the \$205,337 claimed for subcontractor salaries and wages, \$145,249 was allowable in accordance with applicable Federal requirements. We set aside for ACF resolution the remaining \$60,088, which consisted of \$49,683 claimed for Impact Northwest and \$10,405 claimed for Human Solutions:

- For \$49,683 claimed for employee salaries and wages, Impact Northwest charged the costs to the CSBG program on the basis of budgeted time and effort estimates calculated by the program director. In addition, Impact Northwest did not perform any after-the-fact determinations of actual employee activity charged to its programs and did not maintain copies of certified employee timesheets. Because of the use of budget estimates and the lack of adequate supporting documentation, we could not determine the correct amount of salaries and wages that should have been charged to the award. Therefore, we set aside the \$49,683 for ACF resolution.
- For \$10,405 claimed for one employee's salary, Human Solutions did not have adequate documentation to support these costs. Human Solutions did not obtain certified revised timesheets for a program supervisor who reallocated his time from another program to the CSBG program for the period July 1, 2009, to March 20, 2010. Human Solutions reallocated the employee's salary on March 31, 2010, on the basis of the employee's verbal attestation of actual time worked for that period. We were unable to interview the employee because he was no longer employed at Human Solutions when we were conducting our fieldwork. Because of the lack of adequate supporting documentation, we could not determine the reasonableness of the salary reallocation charged to the award. Therefore, we set aside the \$10,405 for ACF resolution.

Fringe Benefits

Federal cost principles (2 CFR part 230, Appendix A, section A.2.) state that to be allowable under an award, costs must be reasonable for the performance of the award and adequately documented. In addition, 2 CFR part 230, Appendix B, section 8.g.(1), states that fringe benefits in the form of regular compensation paid to employees for authorized leave are allowable, provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each. Section 8.g.(2) states that fringe benefits in the form of employer contributions or expenses for Social Security, employee insurance, and similar costs, whether treated as indirect or direct costs, must be “distributed to particular awards and other activities in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such awards and other activities.”

Of the \$61,451 claimed for subcontractor fringe benefits, \$42,923 was allowable in accordance with applicable Federal requirements. We set aside for ACF resolution the remaining \$18,528, which consisted of \$14,834 claimed for Impact Northwest and \$3,694 claimed for Human Solutions. These costs related to the set-aside salaries and wages discussed in the previous section.

Facilities Costs

Section 678F(a)(1) of the CSBG Act states that the award may not be used “for the purchase or improvement of land or the purchase, construction, or permanent improvement (other than low-cost residential weatherization or energy-related home repairs) of any building or other facility.”

Of the \$7,513 claimed for subcontractor facilities costs, \$4,489 was allowable in accordance with applicable Federal requirements. The remaining \$3,024, claimed for Impact Northwest, consisted of \$735 that we determined to be unallowable and \$2,289 that we set aside for ACF resolution:

- The \$735 in unallowable costs was for mortgage and loan interest expenses that Impact Northwest charged to the award. The mortgage interest expenses were for the purchase of an administrative building, and the loan interest expenses were for storefront improvements to that building.
- The \$2,289 that we set aside was for facilities costs that Impact Northwest allocated using the budgeted employee time and effort estimates discussed in the section “Salaries and Wages.” Because of the use of budget estimates instead of actual costs, we could not determine the correct amount of costs that should have been charged to the award.

Other Costs

Federal cost principles (2 CFR part 230, Appendix A, section A.2.) state that to be allowable under an award, costs must be adequately documented. Furthermore, 2 CFR part 230, Appendix B, section 14, states that the costs of entertainment, including amusement, diversion,

and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

Of the \$278,913 claimed for subcontractors' other costs,⁴ \$278,118 was allowable in accordance with applicable Federal requirements. The remaining \$795, claimed for Human Solutions, consisted of \$45 that we determined was unallowable and \$750 that we set aside for ACF resolution:

- The \$45 in unallowable costs was for costs related to staff meetings, celebrations, and a picnic that Human Solutions charged to the award. This amount included the cost of food, utensils, parking passes, bowling alley rental fees, and park fees. These types of unallowable expenses were charged to the CSBG program both directly and as allocated administrative costs.
- The \$750 that we set aside was for a client assistance cost for which Human Solutions did not maintain the client's rental agreement. The subcontractor maintained the client's rental application and a check stub showing that payment was made to the property owner listed on the application; however, without the actual rental agreement, there was no proof that the payment to the property owner was applied toward that client's rental costs as claimed. Because of the lack of adequate supporting documentation, we could not determine the correct amount of costs that should have been charged to the award.

Indirect Costs

Federal cost principles (2 CFR part 230, Appendix A, section A.4.a.) state that a cost is allocable to an award if it benefits both the award and other work and can be distributed in reasonable proportion to the benefits received. Furthermore, Federal regulations (45 CFR § 74.21(b)(6)) state that nonprofit organizations must maintain financial management systems that contain written procedures for determining the reasonableness, allocability, and allowability of costs.

Of the \$27,350 claimed for subcontractor indirect costs, the entire amount was set aside for ACF resolution, consisting of \$19,456 claimed for Human Solutions and \$7,894 claimed for Impact Northwest:

- The \$19,456 was for indirect costs for which Human Solutions did not maintain copies of the calculation spreadsheets and distribution codes supporting the costs claimed. Without supporting documentation, we could not determine the correct amount of costs that should have been charged to the award.
- The \$7,894 was for indirect costs that Impact Northwest calculated using total direct program expenses, which included costs calculated based on budget estimates, such as the set-aside salaries and wages, fringe benefits, and facilities costs discussed above. Because of the use of budget estimates instead of actual program expenses, we could not determine the correct amount of costs that should have been charged to the award.

⁴ Other costs included costs for staff training, telecommunications, and client assistance costs, such as rent, mortgage, utilities, insurance, transportation, and tuition.

COUNTY INDIRECT COSTS

Federal regulations (45 CFR § 92.20(b)) state that the County and its subcontractors must maintain accounting records that are supported by source documentation and maintain financial systems that provide for accurate and complete reporting of grant-related financial data.

Of the \$70,060 that the County claimed for indirect costs, \$63,934 was allowable in accordance with applicable Federal requirements. The remaining \$6,126 consisted of \$44 that we determined to be unallowable and \$6,082 that we set aside for ACF resolution. The \$44 related to the \$780 in unallowable subcontractor facilities and other costs. The \$6,082 was applicable to the set-aside salaries and wages, fringe benefits, and facilities, other, and indirect costs that the County claimed for Human Solutions and Impact Northwest.

LACK OF ADEQUATE MONITORING PROCEDURES

The State agency did not have adequate monitoring procedures to ensure that the CSBG costs claimed for the County's program expenditures for salaries and wages, fringe benefits, and facilities, other, and indirect costs were allowable in accordance with applicable Federal requirements. A State agency monitoring report covering the County's overall handling of CSBG Recovery Act programs and activities, as well as Impact Northwest's fiscal and program processes, reported no findings or concerns.⁵ We found, on the contrary, that the County allowed its subcontractors to charge unallowable mortgage and loan interest expenses, unallowable food and entertainment-related costs, and other costs that did not have adequate supporting documentation and/or were calculated using budget estimates.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government \$824 for unallowable costs;
- work with ACF to determine the allowability of \$115,087 that we set aside and refund to the Federal Government any amount determined to be unallowable;
- work with the County to ensure that all of the County's subcontractors charge salaries and wages based on actual employee time and effort, allocate facilities and indirect costs based on actual costs, and maintain adequate documentation supporting the costs claimed; and
- strengthen monitoring procedures on subcontracts and allocation of costs to ensure that costs claimed are allowable in accordance with applicable Federal requirements.

⁵ The monitoring report did not mention the subcontractor Human Solutions.

DEPARTMENT OF COUNTY HUMAN SERVICES COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the County stated that it did not contest our finding on unallowable costs and had refunded the identified unallowable costs as well as additional unallowable costs for subcontractors that we did not review. The County stated that it believed that the entire amount set aside for ACF resolution was allowable and did not merit repayment because the subcontractors' practice of documenting time and effort was based on a practice authorized by HHS. The County also stated that we did not find that these funds were spent on unallowable expenses but rather that subcontractor practice did not meet adequate documentation standards. The County identified an additional set-aside amount for subcontractors that we did not review but stated that it believed this amount was allowable and did not merit repayment. In addition, the County detailed efforts that it had taken to strengthen its monitoring procedures on subcontracts and allocation of costs. The County's comments are included in their entirety as Appendix C.

Nothing in the County's comments caused us to revise our findings. The County did not provide any evidence to show that HHS had authorized the subcontractors' practice for documenting time and effort. We maintain that the subcontractor costs claimed did not comply with Federal cost principles because they were based on budget estimates and/or lacked adequate supporting documentation.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with all of our recommendations and provided information on corrective actions taken. Regarding our recommendation that the State agency work with ACF to determine the allowability of the \$115,087 that we set aside, the State agency commented that the County believes the set-aside amount is allowable but that it would work with both ACF and the County, if deemed necessary, to determine the allowability of the amount. The State agency's comments are included in their entirety as Appendix D.

APPENDIXES

**APPENDIX A: COSTS CLAIMED AND RESULTS OF AUDIT FOR THE PERIOD
JULY 1, 2009, THROUGH SEPTEMBER 30, 2010**

Element of Cost	Claimed	Allowable	Unallowable	Set Aside	Not Audited
Salaries and Wages	\$280	\$280	\$0	\$0	\$0
Fringe Benefits	159	159	0	0	0
Subcontracts ¹	1,254,807	481,198	780	109,005	663,824
Indirect	70,060	63,934	44	6,082	0
Total	\$1,325,306	\$545,571	\$824	\$115,087	\$663,824

¹ See Appendix B for details on the costs claimed and results of audit for the subcontractors Human Solutions, Inc., and Impact Northwest, Inc.

**APPENDIX B: COSTS CLAIMED FOR SUBCONTRACTORS HUMAN SOLUTIONS
AND IMPACT NORTHWEST AND RESULTS OF AUDIT FOR THE PERIOD
JULY 1, 2009, THROUGH SEPTEMBER 30, 2010**

Element of Cost	Claimed	Allowable	Unallowable	Set Aside
Salaries and Wages	\$205,337	\$145,249	\$0	\$60,088
Fringe Benefits	61,451	42,923	0	18,528
Facilities	7,513	4,489	735	2,289
Supplies and Expenses	10,419	10,419	0	0
Other Costs	278,913	278,118	45	750
Indirect	27,350	0	0	27,350
Total	\$590,983	\$481,198	\$780	\$109,005

APPENDIX C: DEPARTMENT OF COUNTY HUMAN SERVICES COMMENTS



Department of County Human Services
MULTNOMAH COUNTY OREGON
Community Services Division

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503-988-6295 Phone
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February 11, 2013

Report Number: A-09-11-01013

Ms. Lori A. Ahlstrand, Regional Inspector General for Audit Services
Office of Audit Services, Region IX
90 – 7th Street, Suite 3-650
San Francisco, CA 84103

Dear Ms. Ahlstrand:

Thank you for the opportunity to respond to the US Department of Health and Human Services (HHS), Office of Inspector General (OIG), draft report entitled *Oregon Claimed Some Potentially Unallowable Community Services Block Grant Costs for Multnomah County's Expenditures Under the Recovery Act*.

As a local government jurisdiction, we share the Inspector General's commitment to merit the public's trust in the use of tax payer funds. We take these responsibilities seriously and truly appreciate the feedback that allows the County to improve our systems.

I will respond to each finding, including action the County has taken since the start of the audit process in August of 2011. We believe we have strengthened our oversight practices as well as improved subcontractor understanding of their responsibilities to be in complete compliance with all applicable Federal regulations in order to ensure that any lapse of compliance will not occur in the future.

And while the OIG audit process found places to improve in our administrative oversight, we remain proud of the County's programmatic compliance with both the spirit and letter of the American Recovery and Reinvestment Act (ARRA) of 2009 funds that enabled our community to support 175 households who were unemployed, gain employment during their enrollment in or shortly after their exit from services, in an average of 10 months during the recession.

Recommendation #1

Refund to the Federal Government \$824 for unallowable costs.

The County does not contest this finding. In June 2012 and September 2012 the County recovered this amount from our subcontractors and refunded \$824 to Oregon Housing and Community Services (OHCS).

In addition, based on the preliminary feedback received from OIG auditors, the County's Fiscal Compliance staff replicated the audit process at the seven other subcontract agencies that were not audited by OIG, finding an additional \$421.92 of disallowable mortgage costs and this amount was also recovered and refunded to OHCS in September 2012.

Recommendation #2

Work with ACF to determine the allowability of \$115,087 that we set aside and refund to the Federal Government any amount determined to unallowable.

The County believes that all of the set aside amount is allowable and thus does not merit recovery or repayment.

As we have shared with OIG auditors, the practice of documenting time and effort by our subcontractors was based on practice that has been authorized by the County's cognizant agency, HHS, to utilize periodic time studies as an alternate method to meet the requirements of 2 CFR part 230, Appendix B, section 8.m., *Support of Salaries and Wages*. As a result the County allowed this method, in addition to contemporaneous time tracking, for its subcontractors as an adequate time and effort methodology.

The report does not find that set aside funds were spent on disallowable expenses rather than subcontractor practice did not meet, in the opinion of OIG auditors, adequate supporting documentation standards.

Recommendation #3

Work with the County to ensure that all of the County's subcontractor charge salaries and wages based on actual employee time and effort, allocate facilities and indirect costs based on actual costs, and maintain adequate documentation supporting the costs claimed.

Based on the preliminary feedback received from OIG auditors, the County's Fiscal Compliance staff replicated the audit process at the seven other subcontract agencies that were not audited by OIG identifying an additional amount of set aside funds, \$149,437, which while not meeting, in the opinion of OIG auditors, adequate supporting documentation standards, we believe are nonetheless allowable and thus do not merit recovery or repayment.

All County subcontractors have been notified in writing of the OIG auditor's findings, and advised that in the event ACF determines that these funds are unallowable, immediate recovery and repayment will occur.

Recommendation #4

Strengthen monitoring procedures on subcontracts and allocation of costs to ensure that costs claimed are allowable in accordance with applicable Federal requirements.

The County's *Contractor Fiscal Policies and Procedures Manual* has been updated to clearly describe acceptable time and effort and purchasing practices. In addition, Division program staff have met with each subcontractor to review in detail unallowable mortgage,

fees, interest, and food expenses under Community Services Block Grant (CSBG) funding.

The Department's human services contract language has been revised to specifically require copies of signed landlord agreements when rent assistance is provided using federal funds. In addition, subcontractor budget submission forms have been revised to require detailed description of projected leasing and other costs.

All subcontractors were required, as of July 2012, to revise current time and effort practices to utilize contemporaneous time tracking methodology in response to OIG advice.

As a result of these actions, the County believes we have exercised appropriate due diligence to ensure, in response to OIG findings and recommendations, that all applicable Federal requirements are being met.

Thank you again for the opportunity to provide information about the County's actions to improve our processes and respond directly to OIG recommendations. Please don't hesitate to let me know if you require any further information or documentation.

Sincerely,



Mary Li, Manager
Community Services Division
Multnomah County Department of County Human Services

C: Susan Myers, DCHS Director
Kathy Tinkle, DCHS Deputy Director
Nancy Culver, DCHS
Colleen Yoshihara, Multnomah County Fiscal Compliance Officer

APPENDIX D: STATE AGENCY COMMENTS



Oregon

John A. Kitzhaber, MD, Governor

Housing and Community Services

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March 26, 2013

Lori A. Ahlstrand, Regional Inspector General
Audit Services, Office of Inspector General
Department of Health and Human Services
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

Re: Report Number A-09-11-01013

Dear Ms. Ahlstrand,

This letter is in response to Report Number A-09-11-01013 identified in your draft audit report dated February 26, 2013. Oregon Housing and Community Services (OHCS) is committed to being good stewards of financial resources, and the agency is on a continuous improvement path to strengthen its internal controls and business systems. The following responses reflect the efforts of management and staff to address each of the items listed in the report.

We concur with all of the following recommendations:

1. *Refund to the Federal Government \$824 for unallowable costs.*

Corrective action taken: OHCS refunded a total of \$1,245.92 to the Federal Government on March 4, 2013. In September 2012, Multnomah County refunded to OHCS the original \$780 and on March 11, 2013, \$44. Additionally, the County's March refund included \$421.92 more due to reviewing the seven other subcontract agencies not audited by the OIG.

2. *Work with ACF to determine the allowability of \$115,087 that we set aside and refund to the Federal Government any amount determined to be unallowable.*

Corrective action taken: Multnomah County believes the set aside is allowable and does not merit recovery or repayment. In addition, the County believes their actions on the practice approved by HHS related to supporting documentation standards listed in 2 CFR part 230, Appendix B, section 8.m. for subcontractors time and effort methodology is adequate. OHCS will work with ACF and Multnomah County, if deemed necessary, to determine the allowability of the \$115,087 set aside.

3. *Work with Multnomah County to ensure that all of the County's subcontractors charge salaries and wages based on actual employee time and effort, allocate facilities and indirect costs based on actual costs, and maintain adequate documentation supporting the costs claimed.*

Corrective action taken: Multnomah County notified all subcontractors in writing of the OIG auditor's finds and advised of the possibility of immediate recovery and repayment of funds if found unallowable in a subsequent review by ACF. OHCS will work with the County to ensure maintenance of adequate



supporting documentation that supports subcontractors' salaries and wages based on actual time and effort and allocation of facilities and indirect costs based on actual costs.

4. *Strengthen monitoring procedures on subcontracts and allocation of costs to ensure that costs claimed are allowable in accordance with applicable Federal requirements.*

Corrective action taken: In addition to the County updating policies and procedures, OHCS will update procedures to include specific monitoring protocol that includes review of subcontracts and allocation of costs to ensure all costs are allowable under Federal program rules.

Thank you for the opportunity to respond to the draft report entitled, "Oregon Claimed Some Potentially Unallowable Community Services Block Grant Costs for Multnomah County's Expenditures under the Recovery Act." If you have any questions, please contact Diana Koppes, Administrator of the Business Operations Division, responsible for audit responses.

Respectfully submitted,

/Julie V. Cody/

Julie Cody, Administrator, Program Delivery Division

/Diana Koppes/

Diana Koppes, Administrator, Business Operations Division