



April 7, 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 the Community Action Committee of
Danbury, Inc. (A-01-10-02503)

The attached final report provides the results of our limited scope review at Community Action Committee of Danbury, Inc. In accordance with the American Recovery and Reinvestment Act of 2009, the Office of Inspector General (OIG) will provide oversight and audit of programs, grants, and projects funded by the Act.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. We look forward to receiving your final management decision within 6 months. Please refer to report number A-01-10-02503 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT THE COMMUNITY
ACTION COMMITTEE OF
DANBURY, INC.**



Daniel R. Levinson
Inspector General

April 2011
A-01-10-02503

Office of Inspector General

<http://oig.hhs.gov>

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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 Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. 105-285, authorized the Community Services Block Grant (CSBG) program to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (CAA) that create, coordinate, and deliver programs and services to low-income Americans. CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, and better use of available income.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for States to alleviate causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula. Under the Recovery Act, CSBG services may be expanded to those who are within 200 percent of the poverty line.

In Connecticut, the Department of Social Services (the State agency) acts as the lead agency for carrying out State activities for the CSBG program. The State agency is responsible for approving the State's CAA Recovery Act grant applications and monitoring CAAs for compliance with program regulations. The State agency was awarded an additional \$12 million in Recovery Act funds for the State of Connecticut's CSBG program.

Community Action Committee of Danbury, Inc. (CACD), a nonprofit corporation, offers services to low-income families and individuals. The agency is funded primarily through Federal, State, and local grants. CACD was established in 1967 and currently serves 19 towns in Northwestern Fairfield and Litchfield Counties in Connecticut. During fiscal year (FY) 2009, the State agency awarded CACD with \$310,037 in CSBG grant funds and a Recovery Act grant totaling \$507,448. The CSBG Recovery Act grant covers the period from July 1, 2009, through September 30, 2010. For FY 2009, CACD received total Federal grant awards of \$5,224,550.

OBJECTIVE

Our objective was to assess CACD's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG Recovery Act program in accordance with Federal requirements.

SUMMARY OF FINDINGS

Based on its current financial condition, CACD is financially viable. However, significant operating deficiencies existed at CACD that impact its ability to manage and account for Federal funds and its capability to carry out the CSBG Recovery Act program in compliance with Federal requirements. Specifically, CACD did not ensure that:

- direct capital expenditures were approved in advance;
- its subcontract award contained evidence of competitive bidding, a description of services, and services were provided to eligible clients;
- its payroll distribution process provided an after-the-fact certification of actual activity performed by salaried employees;
- professional services and occupancy costs allocated to the CSBG Recovery Act program were supported properly; and
- its CSBG Recovery Act quarterly financial reports were supported by accounting records.

In addition, CACD did not fully comply with Federal requirements for segregation of duties and insured bank deposits. The deficiencies occurred because CACD did not establish adequate controls and procedures. As a result, CSBG Recovery Act funds may be at risk of not being properly accounted for or expended in accordance with Federal requirements.

RECOMMENDATIONS

We recommend ACF work with the State to ensure that CACD establishes adequate controls and procedures to comply with Federal requirements. In addition, we recommend that CACD make financial adjustments or produce adequate documentation for unallowable services, activities, and costs.

COMMUNITY ACTION COMMITTEE OF DANBURY, INC. COMMENTS

In written comments to our draft report, CACD generally concurred with our recommendations. However, CACD did not concur with one recommendation, stating that it has provided adequate documentation to show it has removed unallowable fundraising activities and has charged the CSBG Recovery Act appropriately. CACD's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing CACD's comments, we recommend ACF work with the State to determine whether CACD has provided adequate documentation to show that it has not charged the CSBG Recovery Act for unallowable fundraising activities.

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COMMUNITY ACTION COMMITTEE OF DANBURY, INC. COMMENTS	
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INTRODUCTION

BACKGROUND

Community Service Block Grant

The Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. 105-285, authorized the Community Services Block Grant (CSBG) program to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (CAA) that create, coordinate, and deliver programs and services to low-income Americans. CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, and better use of available income.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for states to alleviate causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula. Under the Recovery Act, CSBG services may be expanded to those who are within 200 percent of the poverty line.

Connecticut Department of Social Services

The Connecticut Department of Social Services (the State agency) acts as the lead agency for purposes of carrying out State activities for the CSBG program. The State agency is responsible for approving the State's CAA Recovery Act grant applications and monitoring CAAs for compliance with program regulations. The State agency was awarded with an additional \$12 million in Recovery Act funds for the State of Connecticut's CSBG program.

The State agency contracts with CAAs for CSBG Recovery Act funding. Contracts with CAAs contain provisions stating that contractors (i.e., CAAs) understand and agree that they shall be liable for any State or Federal audit exceptions and shall return to the State agency all payments to which exception has been taken or which have been disallowed because of such an exception.

Community Action Committee of Danbury, Inc.

Community Action Committee of Danbury, Inc. (CACD), a nonprofit corporation, offers services to low-income families and individuals. CACD is funded primarily through Federal, State, and local grants. CACD also receives grant funds from private sources to supplement Federal and State funding. CACD was established in 1967 and currently serves 19 towns in Northwestern Fairfield and Litchfield Counties in Connecticut. During fiscal year (FY) 2009, the State agency awarded CACD with \$310,037 in CSBG grant funds and a Recovery Act grant totaling \$507,448. The CSBG Recovery Act grant covers the period from July 1, 2009, through September 30, 2010. For FY 2009, CACD received total Federal grant awards of \$5,224,550.

Federal Requirements

Pursuant to 45 CFR part 74, grantees and subgrantees 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 systems and take periodic physical inventory of grant-related equipment. 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 (OMB) 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 CACD's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG Recovery Act program in accordance with Federal requirements.

Scope

We conducted a limited review of CACD's financial viability, financial management system, and related policies and procedures. This limited-scope review is part of a series of reviews planned by the Office of Inspector General (OIG) to provide oversight of funds provided by the Recovery Act. Therefore, we did not perform an overall assessment of CACD's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective. Our review period for the CSBG Recovery Act program was from inception on July 1, 2009, through April 30, 2010.

We performed fieldwork at CACD's facility in Danbury, Connecticut, during May 2010.

Methodology

To accomplish our objective, we:

- confirmed that CACD is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed CACD's application and implementation of the grant awards for Recovery Act funding;
- reviewed the findings related to the most recent State review dated October 31, 2006;

- reviewed CACD's policies and procedures related to the CSBG program;
- reviewed CACD's by-laws, minutes from Board of Directors meetings, composition of the Board, and organizational chart;
- performed audit steps to assess the adequacy of CACD's current financial systems;
- reviewed CACD's audited financial statements and audits conducted pursuant to OMB A-133 for FYs 2007 through 2009;
- performed liquidity and stability analysis of CACD's finances for FYs 2006 through 2009 to determine whether CACD was financially viable;
- reconciled CACD's CSBG Recovery Act quarterly expenditure report for the period ended March 31, 2010, to its official accounting records and judgmentally selected line items transactions to determine if costs claimed were in accordance with Federal requirements and CACD policies and procedures; and,
- discussed findings with CACD 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 objective. 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 its current financial condition, CACD is financially viable. However, significant operating deficiencies existed at CACD that impact its ability to manage and account for Federal funds and its capability to carry out the CSBG Recovery Act program in compliance with Federal requirements. Specifically, CACD did not ensure that:

- direct capital expenditures were approved in advance;
- its subcontract award contained evidence of competitive bidding, a description of services, and services were provided to eligible clients;
- its payroll distribution process provided an after-the-fact certification of actual activity performed by salaried employees;
- professional services and occupancy costs allocated to the CSBG Recovery Act program were supported properly; and
- its CSBG Recovery Act quarterly financial reports were supported by accounting records.

In addition, CACD did not fully comply with Federal requirements for segregation of duties and insured bank deposits. The deficiencies occurred because CACD did not establish adequate controls and procedures. As a result, CSBG Recovery Act funds may be at risk of not being properly accounted for or expended in accordance with Federal requirements.

DIRECT CAPITAL EXPENDITURES

Federal Requirements

Pursuant to OMB A-122, Attachment B, selected items of costs, paragraph 15.b.(1), capital expenditures for general-purpose equipment are unallowable as direct charges, except where approved in advance by the awarding agency. Furthermore, OMB A-122, Attachment A.4., states that a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is incurred specifically for the award.

Unapproved Capital Expenditures

CACD did not ensure that the State agency approved in advance capital expenditures directly charged to the CSBG Recovery Act program. For example, in the quarter ended March 31, 2010, CACD purchased and improperly charged the CSBG Recovery Act program for unapproved office furniture totaling \$26,400, of which CACD claimed \$12,268.

The deficiencies occurred because CACD did not have adequate controls to ensure that unauthorized costs are not charged to the CSBG Recovery Act program. As a result, CSBG Recovery Act funds may be at risk of not being accounted for properly or expended in accordance with Federal requirements.

PROCURING SUBCONTRACT SERVICES

Federal Requirements

Pursuant to 45 CFR § 74.43, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. In addition, CACD procurement procedures require that all purchases must have a requisition with a description of the item to be procured. Purchases over \$2,000 require three competitive bids.

Furthermore, 45 CFR § 74.51(a) on monitoring and reporting program performance states that recipients are responsible for managing and monitoring each project, sub-award, function, or activity supported by the award.

Under the Recovery Act, CSBG services may be provided to those who are within 200 percent of the poverty line. Furthermore, OMB Circular A-122, Attachment A, part A, § 2 on factors affecting allowability of costs states that to be allowable under an award, costs must be documented adequately.

Lack of Competitive Bids and Unsupported Subcontract Costs

CACD entered into a subcontract agreement for job readiness and training services to facilitate employment for eligible clients. This agreement exceeded specified thresholds without adequate evidence of competitive bidding or a clear and accurate description of the technical requirements and scope of services for the material(s), good(s), or service(s) to be procured. In addition, CACD made payments to the subcontractor without adequate evidence of services rendered to eligible clients. For example, the subcontractor submitted two invoices totaling \$10,554 in claims against the Recovery Act for the quarter ended March 31, 2010, that were not supported by program information, statistics reflecting the progress and outcome of each client, attendance records, the number of participants in class, and the participants who left the course. This information is required under the subcontract agreement.

CACD did not have adequate controls to ensure that it complied with Federal requirements and its own procurement requirements for price competition. In addition, CACD had not established procedures for monitoring subcontract performance. As a result, there is no assurance that the CSBG Recovery Act program benefitted from quality services obtained in a cost effective manner and that services were provided as required and to eligible clients only.

PAYROLL DISTRIBUTION SYSTEM

Federal Requirements

Pursuant to OMB A-122, Attachment B, paragraph 8.m., the distribution of salaries and wages must be supported by personnel activity reports. The activity reports maintained by nonprofit organizations must meet the following standards:

- reflect an after-the-fact distribution of the actual activity of each employee,
- account for the total activity for which each employee is compensated,
- be signed by the employee or by a responsible supervisory official having firsthand knowledge of the activities performed, and
- be prepared at least monthly and coincide with one or more pay periods.

In addition, OMB A-122, Attachment B, paragraph 17 on fundraising costs states that costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.

Inadequate Payroll Distribution Process

CACD did not ensure that its payroll distribution process provided an after-the-fact certification of actual activity performed by employees; rather, CACD allocated employee efforts based on a predetermined budget. In addition, CACD's Recovery Act program budget shows a total of

\$57,547 related to its planning component that included fundraising activity. Although OIG requested it, CACD did not provide sufficient information to demonstrate whether these activities are eligible for Federal reimbursement.

CACD did not have adequate procedures to ensure that its payroll distributions process (1) reflects actual work performed by staff at least on a monthly basis and (2) identifies and segregates unallowable activity. As a result, CACD's payroll distribution process does not properly account for Federal funds nor provides for current, accurate, and complete results of CSBG Recovery Act activity.

PROFESSIONAL SERVICES AND OCCUPANCY COSTS

CACD did not ensure that professional services and occupancy costs charged to the CSBG Recovery Act program had been allocated on an equitable basis.

Federal Requirements

OMB Circular A-122, Attachment A, part A, § 2 on factors affecting allowability of costs states:

To be allowable under an award, costs must meet the following general criteria ... be reasonable for the performance of the award and be allocable thereto under these principles ... be determined in accordance with generally accepted accounting principles (GAAP) ... be adequately documented.

Furthermore, section 4, on allocable costs states:

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.

Improper Professional Services and Occupancy Costs

CACD charged unreasonable amounts for professional services and charged unsupported occupancy costs to the CSBG Recovery Act program. Specifically:

- CACD charged \$8,300 of the \$18,365 (45 percent) it incurred in for FY 2009 accounting and auditing services costs to the CSBG Recovery Act program even though the CSBG program only accounted for .2 percent of total FY 2009 expenditures. CACD charged the financial and accounting services costs to the CSBG Recovery Act program based on estimates. If it allocated these costs based on total expenditures, the CSBG Recovery Act would have been charged only \$37.
- CACD charged \$8,650 in rent and \$1,524 in utilities to the CSBG Recovery Act program based on estimates. CACD could not provide any evidence to show that it used an equitable basis such as square footage for allocating costs.

CACD did not establish procedures for allocating professional services and did not comply with its procedures for allocating occupancy costs based on square footage. As a result, CACD over charged the CSBG Recovery Act program \$8,263 (\$8,300 – \$37) in professional services and up to \$10,174 (\$8,650 + \$1,524) in occupancy costs that could not be supported.

FINANCIAL REPORTING

Federal Requirements

Pursuant to 45 CFR § 74.21(b), recipients' financial management systems shall provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program. In addition, if the HHS awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for their reports based on an analysis of the documentation on hand.

In addition, OMB Circular A-122, Attachment A, part A, § 2 on factors affecting allowability of costs states that to be allowable under an award, costs must be determined in accordance with generally accepted accounting principles and be adequately documented.

Quarterly Expenditure Report Not Supported

CACD did not ensure that CSBG Recovery Act quarterly financial reports were supported by accounting records. Specifically, CACD's March 31, 2010, quarterly report showed \$124,302 in cumulative Recovery Act expenditures. However, CACD's accounting ledger records showed a higher amount of \$138,435 in Recovery Act expenditures. The difference of \$14,133 (\$138,435 – \$124,302) was not reconciled nor explained by CACD. Our analysis revealed that this difference consisted of the unapproved capital equipment (office furniture) expenditures charged directly to the CSBG Recovery Act program per its ledger, but the charge had not been included in CACD's March 31, 2010, quarterly expenditure report.

CACD has not established procedures for the preparation of quarterly expenditure reports. As a result, CACD's quarterly expenditure reports do not reflect current, accurate, and complete results of CSBG Recovery Act activity.

SEGREGATION OF DUTIES

Federal Requirements

Pursuant to 45 CFR § 74.21(b)(3), recipients' financial management systems shall provide for effective control over and accountability for all funds, property, and other assets.

Lack of Segregation of Duties

CACD lacks adequate segregation of duties in its human resources and accounting units relating to payroll, accounting, and procurement functions:

- The human resources unit consists of one employee who is also responsible for payroll processing. This individual is responsible for both reviewing employee timesheets and submitting payroll data to the payroll-processing center. CACD does not require another responsible official to review or approve payroll accuracy. There is also a lack of segregation in that this individual receives the checks from the payroll-processing center and hands out the checks to employees. Finally, this individual also performs reconciliations of payroll-processing center reports and records payroll journal entries into the computerized accounting system.
- An individual in the accounting unit performs incompatible accounting, purchasing, disbursement, and property management functions. This individual prepares all purchase orders, records purchases, performs bank reconciliations, and has receipt and disbursement responsibilities (including receiving, depositing, recording, and safeguarding checks). This individual also manages physical inventory, reconciliation, and the asset list.

CACD does not have adequate policies and procedures on segregation of duties. As a result, CACD cannot ensure that it is safeguarding all assets adequately.

BANK DEPOSITS

Federal Requirements

Pursuant to 2 CFR 215.21(b)(3), recipients' financial management systems shall provide for the effective control of funds and assets and shall adequately safeguard all such assets.

Pursuant to 45 CFR § 74.22(i)(2), grantees are required to deposit and maintain advances of Federal funds in insured accounts whenever possible. Federal Deposit Insurance Corporation (FDIC) policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to \$250,000 at a single bank.

Uninsured Bank Deposits

CACD did not ensure that it met Federal requirements for maintaining bank deposits in insured accounts. CACD frequently held money in banks that was over the FDIC insured amount. CACD currently uses one bank for all deposits. The amounts of uninsured deposits ranged from about \$700,000 to \$1.3 million.

CACD did not establish procedures to maintain deposits in insured accounts. The annual audited financial reports for 2007 through 2009 reported this as a weakness. As a result, cash deposits in

excess of the FDIC insurance limit of \$250,000 are at a potential risk of loss in the event of bank failure.

RECOMMENDATIONS

We recommend ACF work with the State to ensure that CACD:

- Provide evidence of prior approval or make a financial adjustment for all capital equipment expenditures that have not been approved in advance by the State agency, including \$12,268 identified in this report;
- establish adequate controls to ensure that unapproved capital equipment costs are not charged to Federal programs;
- provide supporting documentation or make a financial adjustment for subcontract costs that cannot be supported by evidence of services rendered to eligible clients, including \$10,554 identified in this report;
- establish adequate controls to ensure compliance with competitive-bidding procedures and procedures for monitoring subcontract performance including evidence of services to eligible clients;
- establish procedures to ensure that its payroll-distributions process reflects actual work performed by staff;
- provide justification for all or part of \$57,547 identified in this report as unallowable fundraising activities or make a financial adjustment;
- establish procedures to identify and segregate fundraising activity;
- provide support for equitable allocations or make financial adjustments for unreasonable professional services and unsupported occupancy costs, including \$18,437 identified in this report;
- establish procedures and controls to allocate professional services and occupancy costs equitably;
- establish procedures to ensure that quarterly expenditure reports reflect current, accurate, and complete results of program activity;
- establish controls that are approved by CACD's Board of Directors to ensure proper segregation of duties; and
- establish procedures to ensure that Federal funds are maintained in insured accounts.

COMMUNITY ACTION COMMITTEE OF DANBURY, INC. COMMENTS

In written comments to our draft report, CACD generally concurred with our recommendations. However, CACD did not concur with one recommendation, stating that it has provided adequate documentation to show it has removed unallowable fundraising activities and has charged the CSBG Recovery Act appropriately. CACD's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing CACD's comments, we recommend ACF work with the State to determine whether CACD has provided adequate documentation to show that it has not charged the CSBG Recovery Act for unallowable fundraising activities.

APPENDIX

**APPENDIX: COMMUNITY ACTION COMMITTEE OF DANBURY, INC.
COMMENTS**

Community Action Committee of Danbury, Inc.
Danbury, Connecticut

Response to Department Of Health and Human Services Report Number: A-01-10-02503

Submitted by
Bobby J. Poole
Executive Director

March 9, 2011

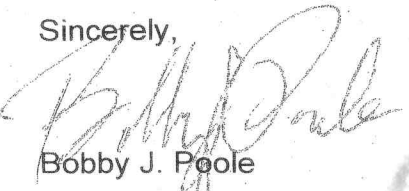
Mr. Michael J. Armstrong, Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Audit Services, Region I
John F. Kennedy Federal Building, Room 2425
Boston, MA 02203

Re: Results of Limited Scope Review at the Community Action Committee of Danbury, Inc.
Report A-01-10-02503

Dear Mr. Armstrong:

Attached is the Community Action Committee of Danbury, Inc.'s response to the recommendations contained in the above report. I would also like to remind the Agency that during 2010, CACD submitted extensive documentation in support of our actions regarding these recommendations. I would like to inquire how that documentation will be used. CACD is committed to the highest level of transparency and compliance with Federal, State and its own Administrative and Financial Procedures.

Sincerely,



Bobby J. Poole

Executive Director

cc: Glenda Armstrong

President of the Board of Directors

The Community Action Committee of Danbury, Inc.

March 9, 2011

RECOMMENDATIONS

1. Provide evidence of prior approval or make a financial adjustment for all capital equipment expenditures that have not been approved in advance by the State Agency, including \$12,268 identified in this report.

CACD RESPONSE: Concur: CACD's initial budget request for capital expenditures was submitted for approval to the State Agency but CACD did not gain advanced approval of the increased costs of capital expenditures. CACD will comply with Federal and State and CACD Financial and Administrative procedures requiring advance approval of capital expenditures based on contract and expenditure levels.

2. Establish adequate controls that unapproved capital equipment costs are not charged to Federal Programs.

CACD RESPONSE: Concur: Unapproved capital equipment purchases have not been charged to the Federal Program. They have been charged to unrestricted Agency Revenue. General Ledger documents support that action and have been verified by CACD's independent auditor.

3. Provide supporting documentation or make a financial adjustment for subcontract costs that cannot be supported by evidence of services rendered to eligible clients, including \$10,544 identified in this report.

CACD RESPONSE: Concur: CACD has collected all supporting documentation for subcontractor costs that defines and supports services rendered to eligible clients. All subcontractor costs that cannot be supported or services identified to ineligible clients have been identified and charged appropriately; they have been verified by Studley and White, the Independent Auditor for CACD's CSBG ARRA Program Expenditures.

4. Establish adequate controls to ensure compliance with competitive-bidding procedures and procedures for monitoring subcontract performance including evidence of services to eligible clients.

CACD RESPONSE: Concur: Subcontractor service fees were approved by State Agencies and subcontractors were on a list of approved contractors for the training and educational services provided.

5. Establish procedures to ensure that its payroll-distributions process reflects actual work performed by staff.

CACD RESPONSE: Concur: CACD has amended its time sheets to incorporate identification of employee's time on a program basis. Time is tracked on employee time utilization for programs and projects.

6. Provide justification for all or part of \$57,547 identified in this report as unallowable fundraising activities or make a financial adjustment.

CACD RESPONSE: Non-concurrence: CACD has provided general ledger documentation and time sheet verification that all fundraising activities by employees and associated employee expenses have been removed and charged appropriately and verified by CACD's Independent Auditor.

7. Establish procedures to identify and segregate fundraising activity.

CACD RESPONSE: Concur: See response in recommendations #5 and 6.

8. Provide support for equitable allocations or make financial adjustments for unreasonable professional services and unsupported occupancy costs, including \$18,437 identified in this report.

CACD RESPONSE: Concur: Independent Auditing costs were identified and approval gained from State Agencies for CACD's CSBG ARRA Program Expenditures. Occupancy costs have been calculated on a space or program benefit usage and Costs Allocation Procedures to reflect the occupancy costs are being implemented.

9. Establish procedures and controls to allocate professional services and occupancy costs equitably:

CACD RESPONSE: Concur: The guidelines referred to in response to the recommendation will become part of CACD's Administrative and Financial Procedures Manual.

10. Establish procedures to ensure that quarterly expenditure reports reflect current, accurate and complete results of program activity;

CACD RESPONSE: CACD reports all of its quarterly expenditure activity on an accrual basis in compliance with State and Federal contractual requirements.

11. Establish controls that are approved by CACD's Board of Directors to ensure proper segregation of duties;

CACD RESPONSE: Concur: CACD has conducted an independent audit of its CSBG ARRA Program Expenditures and is in the process of conducting an independent audit of its 2010 fiscal year. Upon its completion, Administrative and Financial Procedures will be submitted to the Board of Directors for approval.

12. Establish procedures to ensure that Federal Funds are maintained in insured accounts.

CACD RESPONSE: Concur: CACD is working with three financial institutions to diversify accounts and ensure that all Federal Funds are insured.