



December 13, 2010

**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 Community Services Agency  
(A-09-10-01010)

The attached final report provides the results of our limited scope review at Community Services Agency. Pursuant to the American Recovery and Reinvestment Act of 2009 (P.L. No. 111-5), the Office of Inspector General (OIG) provides oversight of covered funds to prevent fraud, waste, and abuse.

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

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov). We look forward to receiving your final management decision within 6 months. Please refer to report number A-09-10-01010 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE  
REVIEW AT COMMUNITY  
SERVICES AGENCY**

**RENO, NEVADA**



Daniel R. Levinson  
Inspector General

December 2010  
A-09-10-01010

# *Office of Inspector General*

<http://oig.hhs.gov>

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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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# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
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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 reauthorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, 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 & 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. These programs address 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 an additional \$1 billion for the CSBG program for States to alleviate the causes and conditions of poverty in communities. Recovery Act funds are distributed to CAAs using the existing statutory formula.

The Nevada Department of Health and Human Services (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' compliance with program regulations. The State agency was awarded \$5 million in Recovery Act funds for Nevada's CSBG program.

Community Services Agency (CSA) is a nonprofit organization in Reno, Nevada, and primarily provides services in northern Nevada to help poor individuals and families. CSA develops and operates education, employment, health, housing, community revitalization, emergency assistance, and referral service programs that are designed to improve self-sufficiency. During fiscal year (FY) 2009, the State agency awarded CSA \$603,382 in CSBG funds and \$892,056 in Recovery Act funds, totaling \$1,495,438. For FY 2009, CSA received total Federal grant awards of approximately \$8.9 million.

### **OBJECTIVE**

Our objective was to assess CSA's financial viability, capacity to manage and account for Federal funds, and capability to operate its CSBG program in accordance with Federal regulations.

### **SUMMARY OF FINDINGS**

Based on our assessment, CSA is financially viable, has the capacity to manage and account for Federal funds, and is capable of operating its CSBG program in accordance with Federal regulations. However, we noted weaknesses related to (1) performance incentive awards, (2) subsidized wages funded by the Recovery Act, (3) Recovery Act reporting, and (4) composition of the board of directors.

## **RECOMMENDATIONS**

We recommend that ACF consider the information presented in this report in assessing CSA's ability to operate its CSBG program in accordance with Federal regulations and in determining whether CSA is appropriately managing and accounting for Recovery Act funds. We also recommend that ACF obtain from CSA documentation supporting the allowability of \$72,175 of performance incentive awards and \$58,466 of subsidized wages paid.

## **COMMUNITY SERVICES AGENCY COMMENTS**

In written comments on our draft report, CSA provided information on actions that it had taken since our review and additional information related to the findings. Regarding the finding related to subsidized wages, CSA stated that before payment of any invoices, CSA received employer information that included dates and hours worked for each subsidized employee. Regarding the finding related to Recovery Act reporting, CSA said that we were inaccurate in stating that 15 persons whose wages were not funded by the Recovery Act were included in CSA's Recovery Act report. CSA stated that it was instructed by the State agency to report all persons receiving a subsidy under any and all Recovery Act programs. CSA's comments are included in their entirety as the Appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Nothing in CSA's comments caused us to change our findings or our recommendation to ACF. Although CSA's employer invoices contained time periods and total hours worked, the invoices did not contain signatures of either individual employees or a responsible official. As a result, we do not consider the invoices sufficient for documenting the hours worked or the gross pay that each employee received. In addition, according to the State agency, only persons whose wages were subsidized by CSBG program funds made available under the Recovery Act were to be included in the Recovery Act report.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Community Services Block Grant Program**

The Community Services Block Grant (CSBG) program was reauthorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P. L. No. 105-285 (CSBG Act), to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & 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 1,000 local Community Action Agencies (CAA) that create, coordinate, and deliver programs and services to low-income Americans. These programs address 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 an additional \$1 billion for the CSBG program for States to alleviate the causes and conditions of poverty in communities. Recovery Act funds are distributed to CAAs using the existing statutory formula.

#### **Nevada Department of Health and Human Services**

The Nevada Department of Health and Human Services (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' compliance with program regulations. The State agency was awarded \$5 million in Recovery Act funds for Nevada's CSBG program.

#### **Community Services Agency**

Community Services Agency (CSA) is a nonprofit organization in Reno, Nevada, and primarily provides services in northern Nevada to help poor individuals and families. CSA develops and operates education, employment, health, housing, community revitalization, emergency assistance, and referral service programs that are designed to improve self-sufficiency. During fiscal year (FY) 2009, the State agency awarded CSA \$603,382 in CSBG funds and \$892,056 in Recovery Act funds, totaling \$1,495,438. For FY 2009, CSA received total Federal grant awards of approximately \$8.9 million.

#### **Requirements for Federal Grantees**

Pursuant to 2 CFR part 215 and 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 benefiting 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 2 CFR § 215.27 and 45 CFR § 74.27, the allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of 2 CFR part 230, *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 CSA's financial viability, capacity to manage and account for Federal funds, and capability to operate its CSBG program in accordance with Federal regulations.

### **Scope**

We conducted a limited review of CSA's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of CSA's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective. Our review period was FY 2009 (July 1, 2009, through June 30, 2010).

We performed our fieldwork at CSA's administrative office in Reno, Nevada, in July 2010.

### **Methodology**

To accomplish our objective, we:

- confirmed that CSA is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed CSA's application for and implementation of the grant awards for Recovery Act funding;
- reviewed the findings related to the most recent State agency review of CSA's compliance with Federal and State CSBG requirements;
- reviewed CSA's financial and accounting policies and procedures;
- reviewed CSA's personnel policies and procedures;
- reviewed CSA's bylaws, minutes from the board of director meetings, composition of the board of directors, and organizational chart;

- performed audit steps to assess the adequacy of CSA’s current financial systems;
- reviewed CSA’s audited financial statements for the periods April 1, 2006, through March 31, 2007; April 1, 2007, through March 31, 2008; and April 1, 2008, through March 31, 2009;
- interviewed CSA’s programs manager to gain an understanding of (1) the implementation of CSBG employment programs funded by the Recovery Act and (2) Recovery Act reporting;
- reviewed 12 client case files for supporting documentation for income eligibility and CSBG services provided;
- reviewed 7 Subsidy Wage Agreements between CSA and employers to ensure that each agreement contained the list of individuals placed with the employer by CSA and that the agreement was signed;<sup>1</sup>
- reviewed supporting documentation for 6 disbursements funded by the Recovery Act; and
- reviewed CSA’s Recovery Act reports for the CSBG program for the period January 1 through June 30, 2010.

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, CSA is financially viable, has the capacity to manage and account for Federal funds, and is capable of operating its CSBG program in accordance with Federal regulations. However, we noted weaknesses related to (1) performance incentive awards, (2) subsidized wages funded by the Recovery Act, (3) Recovery Act reporting, and (4) composition of the board of directors.

### **PERFORMANCE INCENTIVE AWARDS**

Pursuant to 2 CFR part 230, Appendix B, section 8.j.: “Incentive compensation to employees based on cost reduction, or efficient performance ... are allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an

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<sup>1</sup> A Wage Subsidy Agreement contained the portion of the employee wages that CSA would subsidize. The Recovery Act funded the portion of the employee wages paid by CSA.

agreement entered into in good faith between the organization and the employees before the services were rendered, or pursuant to an established plan followed by the organization so consistently as to imply, in effect, an agreement to make such payment.”

HHS’s *Grants Policy Statement*, Exhibit 4, states that incentive awards are “[a]llowable for employees as part of a total compensation package, provided such payments are reasonable and are made according to a formal policy of the recipient that is consistently applied regardless of the source of funds.”

During FY 2009, CSA paid 62 performance incentive awards totaling \$72,175. The organization paid 31 awards in November 2009 and 31 awards in March 2010. The total award for each employee ranged from a high of \$14,950 to a low of \$50. However, CSA did not have any records that documented the justification or approval of the awards paid.

In support of the awards, CSA management told us that its board of directors had approved a performance incentive plan. However, according to CSA, this document was archived and not readily available. CSA management provided to us an internal policy document that stated: “CSA may offer performance awards to reward employees who have excelled in the performance of their jobs or who have met extremely tight and important deadlines .... The Executive Director must approve all awards in advance of any commitment extended to any employee or any applicant.” However, this policy was not dated or signed.

Because CSA was unable to provide documentation supporting the \$72,175 of performance incentive awards, we are setting aside this amount for ACF’s determination of allowability.

## **SUBSIDIZED WAGES FUNDED BY THE RECOVERY ACT**

Pursuant to 2 CFR § 215.21(b)(3), grantees’ financial management systems shall provide effective control over and accountability for all funds. In addition, 2 CFR part 230, Appendix A, section A.2.g., states that for a cost to be allowable, it must be adequately documented.

CSA’s Wage Subsidy Agreement, section 2, states that the employer will “provide CSA with a brief back-up accounting which shall include timesheets or other time records which support the gross pay that the Employee received during the invoiced period.”

CSA did not have adequate support for disbursements of subsidized wages funded by the Recovery Act. CSA paid the wages based upon employers’ invoices, which were not accompanied by timesheets or other time records that supported the gross wages paid to employees.

As of June 30, 2010, CSA had paid \$58,466 of subsidized wages to employers, consisting of \$44,839 for the Adult Employment Program and \$13,627 for the Youth Employment Program. Because CSA was unable to provide adequate support for the \$58,466 of subsidized wages, we are setting aside this amount for ACF’s determination of allowability.

## **RECOVERY ACT REPORTING**

On December 18, 2009, the Office of Management and Budget issued updated guidance on grantees' reporting of the use of Recovery Act funds. Memorandum M-10-08, section 5.2.4., states: "In calculating an FTE [full-time equivalent], the number of actual hours worked in funded jobs are divided by the number of hours representing a full work schedule for the kind of job being estimated. These FTEs are then adjusted to count only the portion corresponding to the share of the job funded by Recovery Act funds."

The State agency's reporting instructions for the Recovery Act Job Creation/Job Retention Tracking Form state the following: "Enter the number of hours the individual has worked this quarter."

CSA did not have adequate procedures or controls to ensure that information it reported to the State agency on the State's Job Creation/Job Retention Tracking Form was accurate or verifiable:

- CSA's Recovery Act report for the quarter ended June 30, 2010, included 476 hours for 15 persons whose wages were not funded by the Recovery Act. As a result, CSA overstated its estimate of the number of jobs created under the Recovery Act by 0.9 full-time equivalent.
- CSA did not report actual hours worked by clients it helped place into employment but rather the estimated hours that CSA expected the clients to work.
- CSA's estimates of client hours worked were not verifiable because CSA did not receive timesheets or time records from employers.

## **COMPOSITION OF BOARD OF DIRECTORS**

Section 676B(a)(1) of the CSBG Act requires that all CSBG agencies administer the CSBG program "through a tripartite board that fully participates in the development, planning, implementation, and evaluation of the program to serve low-income communities." Section 676B(a)(2) requires that the board be composed to ensure that one-third of the members are elected public officials or their representatives, no fewer than one-third of the members are representatives of low-income individuals and families in the neighborhood served by the CSBG program, and the remainder of the members are officials or members of business, industry, labor, religious, law enforcement, education, or other major groups and interests in the community served.

CSA's board of directors did not comply with the CSBG Act requirement that one-third of the members be elected public officials or their representatives. CSA's board of directors serves as the tripartite board, and 1 of the 15 positions has been vacant since March 2008. At the time of our audit, only four members were elected public officials or their representatives instead of the required five members.

## **RECOMMENDATIONS**

We recommend that ACF consider the information presented in this report in assessing CSA's ability to operate its CSBG program in accordance with Federal regulations and in determining whether CSA is appropriately managing and accounting for Recovery Act funds. We also recommend that ACF obtain from CSA documentation supporting the allowability of \$72,175 of performance incentive awards and \$58,466 of subsidized wages paid.

## **COMMUNITY SERVICES AGENCY COMMENTS**

In written comments on our draft report, CSA provided information on actions that it had taken since our review and additional information related to the findings:

- Regarding the finding related to performance incentive awards, CSA stated that it had retrieved from its archives the policy statements approved by the board of directors to support these awards.
- Regarding the finding related to subsidized wages, CSA stated that before payment of any invoices, CSA received employer information that included dates and hours worked for each subsidized employee. CSA also stated that this documentation was pursuant to CSA's Wage Subsidy Agreement.
- Regarding the finding related to Recovery Act reporting, CSA said that we were inaccurate in stating that 15 persons whose wages were not funded by the Recovery Act were included in CSA's Recovery Act report. CSA stated that it was instructed by the State agency to report all persons receiving a subsidy under any and all Recovery Act programs. CSA also stated that it is able to verify hours using employer invoices because the invoices include time periods and hours worked.
- Regarding the finding related to the composition of the board of directors, CSA stated that it had filled the vacant position.

CSA's comments are included in their entirety as the Appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Nothing in CSA's comments caused us to change our findings or our recommendation to ACF:

- During our audit, CSA did not provide documentation of approval of the incentive awards by the executive director or the board of directors.
- For support of subsidized wages, CSA provided only employer invoices. Although these invoices contained time periods and total hours worked, the invoices did not contain signatures of either individual employees or a responsible official. As a result, we do not consider the invoices sufficient for documenting the hours worked or the gross pay that each employee received.

- According to the State agency, only persons whose wages were subsidized by CSBG program funds made available under the Recovery Act were to be included in the Recovery Act report.

# **APPENDIX**

## **APPENDIX: COMMUNITY SERVICES AGENCY COMMENTS**

### **Community Services Agency**

#### **Cloyd Phillips – Executive Director**

November 4, 2010

Lori A. Ahlstrand, Regional Inspector General for Audit Services  
Department of Health & Human Services, Office of Inspector General  
Office of Audit Services, Region IX  
90 - 7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103

Dear Ms. Ahlstrand:

Please accept this letter as Community Services Agency's (CSA's) response to report number A-09-10-01010, Results of Limited Scope Review at Community Services Agency, dated November 1, 2010.

#### **Performance Incentive Awards**

Since the OIG visit, CSA has retrieved from archives the documentation to support performance incentive awards. This documentation includes policy statements approved at the Board of Directors meeting on October 25, 2007, in compliance with 2 CFR part 230, Appendix B, section 8.j. CSA has an established plan to provide incentives as part of an overall compensation plan that is reasonable and consistent. In addition, all performance incentives are approved by the Executive Director, which is consistent with Agency policy requirements, and approved by the Board of Directors. CSA is also implementing additional steps to periodically have the Board of Directors review the Employee Incentive and Retention Award Policies.

#### **Subsidized Wages**

Prior to payment of any invoices, CSA received information from employers that included dates and hours worked for each subsidized employee. This documentation was pursuant to Section 2 of CSA's Wage Subsidy Agreement, "...other time records which support the gross pay that the Employee received during the invoiced period." In addition, as per plan, CSA audited the invoices of at least 30% of the customers that received subsidized wages by verifying against time sheets or payroll documentation provided by employers.

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### **Recovery Act Reporting**

**Number Jobs Created.** As per the direction from our State CSBG Agency, CSA was instructed to include in the Recovery Act report all persons receiving a subsidy under *any and all* Recovery Act programs. It is CSA's position that the OIG report is inaccurate in stating that "15 persons whose wages were not funded by the Recovery Act" were included in CSA's Recovery Act report. While CSA cannot fully attest without seeing the specific list of 15 persons, it is our understanding that OIG is referring to CSA's inclusion of non-CSBG customers (who had wages subsidized under a Department of Labor Recovery Act program) in CSA's Recovery Act report.

**Actual versus Estimated Hours.** Due to the inherent lag in employer invoicing, in good faith, CSA relied on employment information provided by employees to determine hours worked in a reporting period.

**Verification of Estimates.** CSA is able to verify hours based on information provided by the employer. Employer invoices include time periods and hours worked for each subsidized employee.

### **Composition of the Board of Directors**

After an extensive search for a qualified and able Board member, the CSA Board of Directors filled this vacant position at its meeting on October 21, 2010.

If you have any questions, please feel free to contact this office. Thank you for your time and consideration.

Sincerely,

*Cloyd Phillips*

Cloyd Phillips  
Executive Director

cc: Barbara Wall, CSA Board Chair