



Transmitted via e-mail

August 15, 2011

Mr. John A. Wagner, Interim Director
Department of Community Services and Development
P.O. Box 1947
Sacramento, CA 95812-1947

Dear Mr. Wagner:

Final Report—California/Nevada Community Action Partnership, Community Services Block Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the following California/Nevada Community Action Partnership (Cal/Neva) grants:

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
09F-5022	January 1, 2009 through March 31, 2010	\$271,000
09F-5023	January 1, 2009 through August 31, 2010	\$198,997
10F-4078	January 1, 2010 through December 31, 2010	\$179,932
10F-4079	January 1, 2010 through December 31, 2010	\$297,800

The enclosed report is for your information and use. Cal/Neva's response to the report observations and our evaluation of the response are incorporated into this final report. The observations in our report are intended to assist management in improving the effectiveness and efficiency of its operations.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of Cal/Neva. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Ms. Linné Stout, Acting Chief Deputy Director, Department of Community Services and
Development
Ms. Pamela Harrison, Manager, Department of Community Services and Development
Mr. Michael Fontaine, Audit Manager, Department of Community Services and
Development
Mr. Tim Reese, Executive Director, California/Nevada Community Action Partnership

AUDIT REPORT

California/Nevada
Community Action Partnership
Grant Agreements
09F-5022, 09F-5023,
10F-4078, and 10F-4079

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The Department of Community Services and Development (CSD) partners with a network of private, non-profit, and public local community service providers dedicated to helping low-income families achieve and maintain self-sufficiency, meet their home energy needs, and reside in housing free from the dangers of lead hazards. CSD administers California's federal funding for the Community Services Block Grant program (CSBG), Low-Income Home Energy Assistance Program (LIHEAP), Weatherization Assistance Program (WAP), and the Lead-Based Paint Hazard Control Program (LEAD).¹

The California/Nevada Community Action Partnership (Cal/Neva) is the member Association of California and Nevada Community Action Agencies and other non-profit organizations that serve low income individuals in California. Cal/Neva's primary purpose is to bring together public agencies, private organizations, and corporate entities that provide or support programs and services for the economically disadvantaged.² Cal/Neva was awarded four CSBG grants totaling \$947,729 during the period January 1, 2009 through December 31, 2010.

SCOPE

In accordance with an interagency agreement, the Department of Finance, Office of State Audits and Evaluations (Finance), conducted an audit of the following grants.

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
09F-5022	January 1, 2009 through March 31, 2010	\$271,000
09F-5023	January 1, 2009 through August 31, 2010	\$198,997
10F-4078	January 1, 2010 through December 31, 2010	\$179,932
10F-4079	January 1, 2010 through December 31, 2010	\$297,800

The audit objective was to determine whether Cal/Neva's grant revenues and expenditures were in compliance with applicable laws, regulations, and grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

Cal/Neva management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. CSD is responsible for state-level administration of the grant funds including the efficiency and effectiveness of the program.

¹ Excerpts from www.csd.ca.gov.

² Excerpts from www.Cal/Neva.org.

METHODOLOGY

To determine whether grant revenues and expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files maintained by CSD, the grant agreements, and applicable policies and procedures.
- Reviewed Cal/Neva's accounting records, vendor invoices, and bank statements.
- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Verified grant revenues were properly recorded and reported.
- Evaluated whether the tasks required by the grant agreement were performed.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with the staff directly responsible for administering the grant funds. The audit was conducted from March 2011 through June 2011.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except as noted below, Cal/Neva's expenditures were in compliance with applicable laws, regulations, and the grant requirements. Additionally, revenue earned on advanced funds for grant agreements 09F-5022 and 09F-5023 was expended for eligible grant activities. Cal/Neva did not receive advanced funds for grant agreements 10F-4078 and 10F-4079. The Schedule of Budgeted, Claimed, and Questioned Amounts is presented in Table 1.

Table 1: Schedule of Budgeted, Claimed, and Questioned Amounts

Grant Agreements	Period	Budgeted	Claimed	Questioned
09F-5022	January 1, 2009 through March 31, 2010	\$ 271,000	\$ 271,000	\$ 2,372
09F-5023	January 1, 2009 through August 31, 2010	198,997	198,997	29,965
10F-4078	January 1, 2010 through December 31, 2010	179,932	160,377	3,369
10F-4079	January 1, 2010 through December 31, 2010	297,800	267,649	3,226
	Total Expenditures	\$ 947,729	\$ 898,023	\$ 38,932

Observation 1: \$38,932 in Ineligible Costs Claimed

Cal/Neva claimed and was reimbursed for ineligible costs of \$38,932 for various grants as illustrated above. Office of Management and Budget (OMB) Circular A-122 defines which expenditures are eligible and ineligible for reimbursement. Specifically, Cal/Neva claimed the following ineligible grant expenditures:

- \$28,660 was charged to grant agreement 09F-5023 for the Fulfilling the Promise Education and Outreach Project. Because this project was not identified in the grant's budget or work plan, these costs did not relate to the intended purpose of this grant.
- \$4,107 was claimed for meetings that were unrelated to the intended purpose of the grants charged. These expenditures included a preconference mixer and receptions for previous incoming and outgoing CSD Directors. These ineligible expenditures were claimed to grant agreements 10F-4078 and 10F-4079.
- \$1,905 was claimed for gifts and promotional items including cookies, candy, gift cards, novelties, and logo imprinted promotional items. These ineligible expenditures were claimed to grant agreements 09F-5022, 09F-5023, 10F-4078, and 10F-4079.
- \$1,752 was claimed for entertainment expenses incurred during Board of Directors retreats and conferences. The expenditures included theatrical production tickets, museum tickets, and ground transportation costs to these events. These ineligible expenditures were claimed to grant agreements 09F-5022, 09F-5023, and 10F-4079.

- \$1,651 was claimed for food, beverages, microwave oven, coffee maker, and staff meals. These ineligible expenditures were claimed to grant agreements 09F-5022, 09F-5023, 10F-4078, and 10F-4079.
- \$800 was claimed in membership dues/subscriptions to the National Community Action Foundation that are prohibited as lobbying activities. The mission of the National Community Action Foundation is to formulate and promote federal legislative and program initiatives to strengthen the ability of Community Action Agencies to serve low-income clients and communities. These ineligible expenditures were claimed to grant agreements 09F-5022, 09F-5023, and 10F-4079.
- \$57 in alcoholic beverage purchases were claimed to grant agreements 09F-5022, 09F-5023, and 10F-4078.

Recommendations:

Cal/Neva should:

- A. Remit \$38,932 in ineligible costs to CSD. CSD will make the final determination regarding the disposition of the ineligible costs.
- B. Implement procedures to ensure all expenditures claimed are allowable and directly related to the intended purpose of each grant.

Observation 2: Improper Cost Allocation

As described below, Cal/Neva did not allocate costs in accordance with the requirements of OMB Circular A-122. As a result, the expenditures claimed may not accurately represent the actual cost of performing the grant activities.

- *Direct Costs*—Cal/NEVA allocates direct costs based on grant funds available instead of the benefits received by each grant. Specifically, Cal/Neva calculates the percentage of each grant award to the total grant awards to calculate the allocation percentages used to allocate the costs. Additionally, these percentages are adjusted during the year based on availability of funds for specific grants. OMB Circular A-122 states that direct costs charged to two or more grants should be allocated based on actual cost incurred or on a percentage of use basis.
- *Indirect Costs*—In the absence of an approved indirect cost rate plan, Cal/Neva charged its indirect costs as direct cost following the direct cost allocation methodology described above. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. OMB Circular A-122 requires that a non-profit organization submit its initial indirect cost proposal to the cognizant federal agency immediately after the organization is advised that an award will be made and, in no event, later than three months after the effective date of the award.

Recommendations:

Cal/Neva should:

- A. Implement a direct cost allocation methodology that meets the requirements of OMB Circular A-122.

- B. Develop an indirect cost rate plan and obtain required approvals before claiming indirect costs to future grants.

Observation 3: Inadequate Internal Controls Over Contracting

Cal/Neva executed a \$126,000 contract on July 9, 2009 without prior Executive Committee approval. The Executive Committee eventually approved the contract six months later on January 6, 2010. However, by this date, significant costs were already incurred. Further, Cal/Neva did not use a competitive bidding process to award this contract.

Cal/Neva's Financial Policies and Procedures manual requires Executive Committee approval of all contracts prior to making any commitment to pay for services. Moreover, the grant agreements require that the grantee shall establish, maintain, and follow written procurement procedures consistent with the procurement standards in OMB Circulars A-102 and A-110, and all additional provisions of the grant agreement. These procurement standards require a competitive bidding process to maximize open and free competition, and to minimize the risk of conflict of interest. In addition, the contractor selection process must be documented by the grantee organization. The internal controls required by the OMB Circulars and grant agreements help minimize the risk of related party transactions, fraud, lawsuits, and excessive contracting costs.

Recommendations:

Cal/Neva should:

- A. Ensure that contracts are subjected to the competitive bidding process.
- B. Ensure that all contracts are approved by the Executive Committee prior to making any commitment to pay for services.

Observation 4: Improper Employee Timekeeping

Salaries and wages claimed against the grants were based on budgeted hours rather than actual hours incurred related to each grant's specific activities. As a result, Cal/Neva may have overcharged or undercharged the individual grants for salary and wage costs. However, because we verified the grant objectives were met, we concluded that significant personnel resources were expended in the implementation of grant activities. Therefore, we did not question specific personnel costs.

OMB Circular A-122 states the distribution of salaries and wages to awards must be supported by personnel activity reports. Among other requirements, the personnel activity reports maintained by non-profit organizations must meet the following standards:

- A. The reports must reflect an after-the-fact determination of the actual activity of each employee.
- B. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

Recommendations:

Cal/Neva should:

- A. Maintain personnel activity reports in accordance with OMB Circular A-122.
- B. Ensure only actual salaries incurred in the performance of grant activities are claimed to the respective grants.

Observation 5: Governing Board Lacks Independence

Cal/Neva's Governing Board (Board) lacks independent membership and the current bylaws prevent independent members from being elected. Board membership is restricted to regular or associate members of the Cal/Neva network. Because these members also represent other related organizations within the Cal/Neva network that have a material financial interest in, and an ongoing business relationship with Cal/Neva, their independence is impaired.

California Corporations Code, section 5227, states that not more than 49 percent of persons serving on the board of directors may be interested persons. The code defines an interested person as any person currently being compensated by the corporation for services rendered to the corporation within the twelve previous months. As a result of the aforementioned business relationship between the Cal/Neva board and its member organizations, all current board members are considered interested persons. A lack of independence from any Board increases the risk that public funds could be misused and may diminish the transparency, accountability, and public trust of the organization.

Recommendation:

Cal/Neva should amend its bylaws to allow the election of board members from outside its network and ensure a simple majority of board members are independent.



July 27, 2011

David Botelho, CPA
Chief, Office of State Audits and Evaluations
California Department of Finance
915 L Street, Sacramento, CA 95814

Ref: Draft Report – California/Nevada Community Action Partnership,
Community Services Block Grant Audit

Dear Mr. Botelho:

We have received the referenced draft audit report. The work of a state association is to build the capacity of CSBG eligible entities through a variety of activities that support member and non-member agencies. These allowable activities take the form of a broad array of activities, programs and services that are typical of an association and are distinct from a direct client service provider or a compliance monitoring entity.

Federal CSBG authorization for “discretionary” funds is by design meant to be discretionary and therefore flexible. State associations are funded by the federal Office of Community Services directly and through the local state office specifically to do things that federal, state, county or city government entities are unable to do. We build capacity of the network, encourage networking, build relationships, provide information, stimulate communications both formal and informal, and encourage “best practices” that encourage the development of creative solutions by the network to meet the intent of federal CSBG legislation through the use of highly “discretionary” funds and creative initiatives.

Our efforts build the field through creative solutions to the most pressing issues facing low income communities. Most of all, Cal/Neva efforts support the network of CSBG eligible entities and CSD; we help to fulfill the Promise of Community Action and the intent of CSBG authorization through activities that encourage creative solutions to local problems, identified by local community needs assessments, through leveraging resources, tripartite board based initiatives and other activities that public entities are restricted from engaging in directly.

Cal/Neva maintains a strong and close partnering relationship with the federal Office of Community Services, the state CSBG office, Community Services and Development and our other national partners that are funded through direct OCS discretionary funding and/or through federal CSBG discretionary funding through the state block grant. These partners include but are

California / Nevada Community Action Partnership
The State CAA Association
225 30th Street, Suite 200, Sacramento, CA 95816
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WWW.CAL-NEVA.ORG

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THE PROMISE OF
COMMUNITY ACTION

Community Action changes people's lives, embodies the spirit of hope, improves communities, and makes America a better place to live. We care about the entire community and are dedicated to helping people help themselves and each other.



not limited to; the national Community Action Partnership, the National Community Action Foundation, the National Association of State Community Service Programs, CAPLAW and many others.

We believe that all expenditures and costs allocated to the grant agreements under review were appropriate and consistent with the contract intent, budgets, and scope of work efforts in compliance with stated contract goals and objectives, the needs of CSD and the CSBG eligible entities.

The questioned costs have been singled out from a cost allocation (shared cost) that is based upon a pro-rated share of allowable costs. These have been mis-identified as "entertainment" or food/beverages for staff or gifts and promotional items that were actually member service or contract program or general operating related expenses that are necessary to the overall operation and consistent with our contract scope of work intent and approved budgets.

Contracts 10F-4079 (page A1) and 09F-5022 (page A1) clearly state ALLOWABLE GENERAL OPERATING EXPENSES INCLUDING THE FOLLOWING: "Other operating expenses as determined by Cal/Neva."

Contracts 09F-5022 (CSD 425 S) and 09F-5023 (CSD 425 S) both allow for programmatic and administrative operating expenses for: Operating Expenses, Meeting Logistics/Conferences.

All of the questioned costs fall into acceptable and appropriate contract related activities such as Meeting Expenses, Office Expense, Conference Materials, Dues and Subscriptions and Conferences.

Observation 1:

\$. \$28,660 Project was not identified in the grant's budget or work plan, these costs did not relate to the intended purpose of the grant.

The CSD CSBG Discretionary Training and Technical Assistance Contract 09F-5023 was problematic from the very beginning. Consider the following:

- Cal/Neva and CSD were engaged in complex contract negotiations regarding the scope of work and budget for both the T&TA and Capacity Building discretionary contracts from November 2008 through June of 2009.
- Cal/Neva returned to CSD the signed contract (including 09F-5022) on June 26, 2009.
- Cal/Neva received an executed contract (including 09F-5022) on July 9, 2009 for this contract scope of work and budget in the amount of \$179,000 six months after the start date of the contract.
- Both contracts, 09F-5023 and 09F-5022 were retroactive to January 1st and "advances" were requested, and received, to cover expenses already incurred by Cal/Neva for the period of contract related work between January 1st and June 30th.

- Cal/Neva submitted the first report covering the period from January 1 – June 30, on August 7, 2009, seven months after the start date and 30 days after the contract execution date.
- Due to changing needs and priorities of the network and CSD, a contract amendment was executed on December 8, 2009 that increased the budget amount from \$179,000 to \$198,997, just three weeks before the December 31 end date.
- Due to significant unexpended funds remaining under this contract, partially due to unexpended Peer to Peer training funds that were restricted "at the direction of CSD" a second contract amendment was executed extending the term of the contract from January 1, 2009 to August 31, 2010 on April 6, 2010 more than four months after the original contract end date of December 31, 2009.
- On July 15, 2010 six weeks prior to the revised end date of the contract, Cal/Neva requested a CSD 425b CSBG Request for Amendment/Modification form from CSD and it was received. Inexplicably this form was completed but never received by CSD for approval.
- On January 24, 2011, Cal/Neva received the CSD contract close out letter for 09F-5023.
- On July 21, 2011 Cal/Neva made a follow-up request to CSD to approve an amendment to the contract Task Two to close out the file. Attached are related documents.

During this challenging time (note Observation 3 response) frequent informal conversations occurred between Cal/Neva staff and CSD staff to assure that contract funds were fully expended. We believe these are allowable costs that are related to the original contract scope of work and we have requested a work plan modification based upon discussions to modify the scope of work/budget. We have submitted the request and are awaiting a response from CSD.

\$. \$4,107 These expenditures included a reception for previous incoming and outgoing CSD Director. We believe these are allowable costs per OMB Circular A-122 and they are appropriately categorized in the contract budget as "Other operating expenses as determined by Cal/Neva" These meeting costs are a valuable tool for Agency outreach and support. See attachment.

\$. \$1,905 was claimed for gifts and promotional items including cookies, candy, gift cards, novelties, and logo imprinted promotional items. We believe these are allowable costs per OMB Circular A-122 and they are appropriately categorized in the contract budget as "Other operating expenses as determined by Cal/Neva". In addition, these program promotional and meeting costs are a valuable tool for Agency outreach and support to help assure contract scope of work deliverables. See attachment.

\$. \$1,752 was claimed for entertainment expenses incurred during a board of director retreats and conferences. These expenditures included theatrical production tickets, museum tickets, and ground transportation costs to these events. We believe these are allowable costs per OMB Circular A-122 that were necessary to promote information sharing, networking amongst CSBG entity representatives. These expenditures related to staff work and assignments while on duty were appropriate. See attachment.



. \$1,651 was claimed for food, beverages, microwave oven, coffee maker, and staff meals. We believe these are allowable costs per OMB Circular A-122 for working business meetings and office expense and are treated as indirect shared costs. See attachment.

. \$800 was claimed in membership dues/subscriptions to the National Community Action Foundation that are prohibited as lobbying activities. The mission of the National Community Action Foundation is to formulate and promote federal legislative and program initiatives to strengthen the ability of Community Action Agencies to serve low-income clients and communities. We believe these are allowable costs per OMB Circular A-122 that were necessary to inform the CSBG network regarding various initiatives related to CSBG by Congress and to keep the network informed of discussion regarding CSBG between members of Congress and the Administration. Our membership dues supported information sharing through access of the NCAF News e-blasts and are not for lobbying activities. See attachment.

. \$57 in alcoholic beverage purchases were claimed. We are not aware of any specific alcoholic beverages purchases claimed against any state contract. The audit detail merely mentions; "Note: Expenditures for alcohol were noted during review of supporting documents for claimed expenditures." No reference to any specific invoice or transaction is mentioned as all the other listed questioned costs refer to specific documentation.

Recommendations:

We believe that all of the \$38,932 in referenced costs are allowable costs.

As a result of your thorough review we have taken the follow steps to improve our oversight, transparency and accountability to ensure that all expenditures claimed are allowable and directly related to the intended purpose of each grant.

Observation 2:

We believe that Cal/Neva appropriately allocated costs.

Recommendations:

However, we have implemented a review of our direct costs and indirect costs allocation procedures.

Observation 3:

Cal/Neva executed a \$126,000 contract on July 9, 2009 without prior Executive committee approval. The Executive Committee eventually approved the contract six months later on January 6, 2010. However, by this date, significant costs were already incurred. Further, Cal/Neva did not use a competitive bidding process to ward this contract.



Due to the unusual demands during this time period and a specific request from the White House Office of Recovery Implementation requesting a meeting and demonstration of our project to various federal department marketing and media relations staff at the Old Executive Office Building within the White House compound, (National Endowment for the Arts, Department of Agriculture, Department of Energy and others) we moved forward quickly. The internal process for review and approval was delayed. We utilized a sole source bidding process for this contract due to the unique and creative nature of this project and the very limited time line to implement project activities.

Recommendations:

We are in the process of updating our Financial Policies and Procedures manual to assure that policies are followed without a time delay and that are consistent with procurement standards in OMB Circulars A-110. The revised draft will be forwarded to our Finance Committee for review and approval.

Observation 4:

Salaries and wages claimed against the grants were based on budgeted hours rather than actual hours incurred related to each grant's specific activities. As a result, Cal/Neva may have overcharged or undercharged the individual grants for salary and wage costs. However, because we verified the grant objectives were met, we concluded that significant personnel resources were expended in the implementation of grant activities. Therefore, we did not question specific personnel costs.

Recommendations:

The distribution of salaries and wages to awards are supported by personnel activity reports are claimed to the respective grants.

Observation 5:

Cal/Neva's Governing Board (Board) lacks independent membership and the current bylaws prevent independent members from being elected. Board membership is restricted to regular or associate members of the Cal/Neva network. Because these members also represent other related organizations with in the Cal/Neva network that have a material financial interest in, and an ongoing business relationship with Cal/Neva, their independence is impaired.





Recommendations:

It is our mission to *"Serve as a catalytic agent in the development of resources and provide technical assistance to anti-poverty organizations, to assist the poor in the states of California and Nevada by coordinating the efforts of Community Action Agencies and other non-profit organizations with similar goals and objectives to provide for more effective utilization of public and private resources, and to engage in developing, coordinating, researching, and disseminating information and materials directed towards the reduction of poverty in the states of California and Nevada"*. No Director has any material financial interest in the organization as no funds exchange hands. This is a membership organization and Directors represent the interests of the members. Directors are elected by a public/democratic process.

We are appreciative of your review and for your recommendations for improvement. Our discussions with your auditors while they were on-site were very helpful and valuable. The observations contained in your report will guide us toward continued improvement in our operations.

The referenced attachments will be forwarded to you under a separate email. We look forward to discussing any additional concerns or questions that you may have as you prepare the final Audit Report. Thank you.

Sincerely,

Original signed by:

Tim F. Reese
Executive Director

Attachments

CC: Cal/Neva Board of Directors



The Department of Finance, Office of State Audits and Evaluations, reviewed Cal/Neva's July 27, 2011 response to the draft report. We appreciate Cal/Neva's willingness to consider and implement corrective actions related to Observations 2 and 3. The following comments relate to Observations 1, 4, and 5.

Observation 1: \$38,932 in Ineligible Costs Claimed

Cal/Neva asserts the ineligible costs are allowable and mis-identified as entertainment, food/beverages, or gifts/promotional items, and are necessary to the overall operation and related to the contract scope of work and approved budgets. Additionally, Cal/Neva asserts grant agreements 10F-4079 and 09F-5023 allow general operating expenses to include other operating expenses as determined by Cal/Neva. Finance recognizes these grant agreements include this statement. However, all of the grant agreements state all services and activities are to be provided in accordance with all applicable federal and state laws and regulations. Further, the grant agreements indicate federal law also directs the state to ensure the cost and accounting standards of the Office of Management and Budget (OMB) apply to the recipients of Community Services Block Grants. In this case, OMB Circular A-122 delineates the cost principles for non-profit organizations. Comments related to Cal/Neva's response to the ineligible costs are presented below.

- **\$28,660 for Ineligible Project Costs**

Cal/Neva submitted a Justification for Contract Amendment/Modification requesting the addition of Fulfilling the Promise Education and Outreach Project activities for grant agreement 09F-5023 on July 21, 2011, eleven months after the agreement expiration date of August 31, 2010. The executed agreement did not include any reference to the Fulfilling the Promise Education and Outreach Project. Consequently, Cal/Neva's claimed expenditures for this project are not related to the approved purpose of this grant. Therefore, the observation remains unchanged in the report.

- **\$4,107 for Meetings/Conferences**

OMB Circular A-122, Attachment B, section 29, requires the primary purpose of meetings or conferences be for the dissemination of technical information. Additionally, section 14 prohibits reimbursement of social activities. As a result, the costs claimed for the pre-conference mixer and receptions for previous incoming and outgoing CSD directors are ineligible. Therefore, the observation remains unchanged in the report.

- **\$1,905 for Gifts and Promotional Items**

OMB Circular A-122, Attachment B, section 1.f.3, prohibits reimbursement for promotional items and gifts. As stated in the report, the promotional items and gifts included cookies, candy, gift cards, novelties, and logo imprinted promotional items. Therefore, the observation remains unchanged in the report.

- **\$1,752 for Entertainment**

OMB Circular A-122, Attachment B, section 14, prohibits reimbursement of entertainment expenses. The ineligible entertainment expenses, which were incurred during Board of Directors retreats and conferences, included theatrical production tickets, museum tickets, and ground transportation costs to these events. Therefore, the observation remains unchanged in the report.

- **\$1,651 for Other Ineligible Items**

OMB Circular A-122, Attachment B, section 19, prohibits reimbursement of goods and services for the personal use by an organization's employees. As stated in the report, costs were claimed for food, beverages, microwave oven, coffee maker, and staff meals. Therefore, the observation remains unchanged in the report.

- **\$800 for Membership Dues/Subscriptions**

OMB Circular A-122, Attachment B, section 25, prohibits contributing to or paying the expenses of a political action committee. This cost represents membership dues/subscriptions to the National Community Action Foundation. As stated in the report and in Cal/Neva's response, the mission of the National Community Action Foundation is to formulate and promote federal legislative and program initiatives to strengthen the ability of community action agencies to serve low-income clients and communities. Additionally, the response indicates these costs were incurred to keep updated of political actions occurring between members of Congress and the Administration. Therefore, the observation remains unchanged in the report.

- **\$57 for Alcoholic Beverages**

OMB Circular A-122, Attachment B, section 3, prohibits reimbursement for alcoholic beverages. For clarification, the supporting documentation reviewed included a \$38 grocery store receipt for alcoholic beverages for a Board of Directors' meeting and \$19 in hotel and restaurant receipts included in a travel claim. Therefore, the observation remains unchanged in the report.

Observation 4: Improper Employee Timekeeping

OMB Circular A-122, Attachment B, section 8.m, delineates the timekeeping requirements. Cal/Neva asserts its distribution of salaries and wages to awards is supported by personnel activity reports and claimed to the respective grants. Finance concurs that personnel activity reports existed. However, based on interviews and a review of documents, the salaries and wages documented on the personnel activity reports and claimed were based on estimated,

rather than actual hours worked. Additionally, as stated in the report, the personnel activity reports are required to account for the total activity for which the employees are compensated. Therefore, the observation remains unchanged in the report.

Observation 5: Governing Board Lacks Independence

Cal/Neva stated none of its Board Directors have any material financial interest in the organization because no funds change hands. For clarity, Observation 5 relates to the Board members' organizational impairment. This impairment stems from the fact only members of the Cal/Neva network can be elected to the Board. These same network organizations have an ongoing business relationship with Cal/Neva. Therefore, the observation remains unchanged in the report.