



Transmitted via e-mail

December 29, 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—Pacific Asian Consortium in Employment, Department of Community Services and Development Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the following Pacific Asian Consortium in Employment (PACE) grants:

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
08C-1719 DOE	July 1, 2008 through June 30, 2009	\$ 279,621
09C-1819 ARRA DOE	June 30, 2009 through October 31, 2010	\$3,512,859
09B-5519 LIHEAP	January 1, 2009 through September 30, 2010	\$5,181,127
10B-5619 LIHEAP	January 1, 2010 through October 31, 2010	\$5,629,554

The enclosed report is for your information and use. PACE's response to the report observations and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of PACE. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by Richard Sierra for:

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

Enclosure

cc: Ms. Linné Stout, Acting Chief Deputy Director, Department of Community Services and Development
Mr. Michael Fontaine, Staff Management Auditor, Audit Services Unit, Department of Community Services and Development
Mr. Kerry Doi, President and Chief Executive Officer, Pacific Asian Consortium in Employment
Ms. Cynthia Llana, Project Director, Energy & Environmental Services, Pacific Asian Consortium in Employment
Mr. Miguel Perez, Controller, Pacific Asian Consortium in Employment

AUDIT REPORT

Pacific Asian Consortium in Employment
Grant Agreements 08C-1719, 09C-1819,
09B-5519, and 10B-5619

Prepared By:
Office of State Audits and Evaluations
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Final reports are available on our website at <http://www.dof.ca.gov>

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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 mission of the Pacific Asian Consortium in Employment (PACE), a non-profit community development organization, is to create economic solutions to meet the challenges of employment, education, housing, business development, and the environment in the Pacific Asian and other diverse communities. PACE's activities include workforce development, housing and rehabilitation services, affordable housing development, weatherization and energy conservation programs, business development, financial education, and early childhood education.²

SCOPE

In accordance with an interagency agreement, the Department of Finance, Office of State Audits and Evaluations, conducted an audit of the PACE's CSD grants listed below.

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
08C-1719 DOE	July 1, 2008 through June 30, 2009	\$ 279,621
09C-1819 ARRA DOE	June 30, 2009 through October 31, 2010	\$3,512,859
09B-5519 LIHEAP	January 1, 2009 through September 30, 2010	\$5,181,127
10B-5619 LIHEAP	January 1, 2010 through October 31, 2010	\$5,629,554

The audit objective was to determine whether the PACE's grant revenue and expenditures claimed 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 internal controls. We did not assess the efficiency or effectiveness of program operations.

PACE management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. CSD is responsible for the 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.pacela.org/about-us

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 PACE's accounting records, vendor invoices, and other supporting documents.
- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records or other documents, 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.

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 grant funds. The audit was conducted from December 2010 through October 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, PACE’s expenditures were in compliance with applicable laws, regulations, and the grant requirements. Additionally, funds were maintained in a separate account and interest earnings were expended on grant related activities or returned to CSD. The Schedule of Claimed and Questioned Amounts is presented in Table 1.

Table 1: Schedule of Claimed and Questioned Amounts

Grant Agreements	Audit Period	Claimed	Questioned
08C-1719 DOE	July 1, 2008 through June 30, 2009	\$ 356,728	\$ 4,201
09C-1819 ARRA DOE	June 30, 2009 through October 31, 2010	2,337,119	4,094
09B-5519 LIHEAP	January 1, 2009 through September 30, 2010	5,239,847	112,510
10B-5619 LIHEAP	January 1, 2010 through October 31, 2010	1,111,311	52,713
Total		\$9,045,005	\$173,518

Observation 1: \$173,518 in Ineligible Costs Claimed

PACE claimed and was reimbursed for ineligible costs of \$173,518 for various grants as illustrated above. Specifically, PACE claimed the following ineligible grant expenditures:

- \$100,539 was claimed for employee incentive pay to grant agreements 09B-5519 and 10B-5619. Allowable incentive pay must be consistently applied to federal and non-federal activities. PACE did not provide any information to support that the incentive pay is consistently applied to the federal and non-federal activities. As a result, these expenditures were deemed ineligible.
- \$37,786 was claimed for ineligible Other Labor charges to grant agreements 08C-1719, 09B-5519, and 10B-5619. Specifically, PACE claimed \$170.72 in labor costs to schedule each job for installation and/or repair. However, information provided by PACE to CSD supported an allowable rate of \$50 for this service as of March 15, 2007. Therefore, only \$50 per job scheduled for installation and/or repair is allowable.
- \$11,246 ineligible labor costs were claimed for microwave installations and refrigerator recycling disposal fees.
 - For the microwave installations, \$6,600 in ineligible labor costs were claimed to grant agreements 09B-5519 and 10B-5619. PACE claimed 1.5 hours per installation. However, the timesheets supported 30 minutes or less per installation. Therefore, only 30 minutes per installation is allowable.

- For refrigerator recycling disposals, \$4,646 in ineligible labor costs were claimed to grant agreements 08C-1719, 09B-5519, and 10B-5619. PACE claimed from 1 to 1.5 hours of labor costs for each individual refrigerator recycled. However, the vendor invoices reviewed reflect nine or ten refrigerators recycled during each trip to the recycler. The \$4,646 in ineligible refrigerator recycling labor costs were calculated based on estimating an average of nine refrigerators recycled during each trip and allowing one labor hour per trip.
- \$10,000 was claimed to grant agreements 09B-5519 and 10B-5619 for ineligible consultant costs. PACE entered into a \$500 per month consulting agreement for liaison services between the City of Los Angeles Community Development Department (CDD) and its network of service providers and the LIHEAP service providers for the Los Angeles City/County, as well as Community Action Boards. However, PACE was unable to provide any reports or documentation of the services performed by the consultant. The grant contracts state that allowable Assurance 16 expenses include only actual costs that are directly attributable to the performance of the specific grant agreement and are reasonable and necessary as determined by the State for the purpose of delivering services.
- \$9,159 was claimed for ineligible training costs to grant agreements 08C-1719, 09C-1819, 09B-5519, and 10B-5619. The expenditures included \$6,920 for soft skills training and \$1,839 for travel expenses and fees to attend a Washington D.C. convention. Additionally, \$400 was claimed for cancellation fees. Furthermore, these training expenditures were claimed under a cost category limited to only weatherization training.
- \$4,788 was claimed for food and drinking water for employees. \$3,906 was claimed for a luncheon to meet a new PACE Director, several on-site non-technical employee training events, a departmental teambuilding event, and catering for off-site soft skills training. Additionally, \$882 was claimed for drinking water which is provided for all employees. These ineligible expenditures were claimed to grant agreements 08C-1719, 09C-1819, 09B-5519, and 10B-5619.

The Office of Management and Budget (OMB) Circular A-122 and the grant agreements define which expenditures are eligible and ineligible for reimbursement. Pursuant to the contracts and OMB Circular A-122, the Grantee may claim reimbursements for actual, allowable, and allocable costs which must be ordinary, necessary, and reasonable for the performance of the award. Without prudent and fiscally responsible governance, grant funds may be misused and result in failure to achieve the intended grant objectives.

Recommendations:

- A. PACE should return \$173,518 in ineligible expenditures claimed to CSD. Additionally, because the audit results are based on a sample of transactions, CSD should determine whether additional amounts should be returned related to the issues identified above. CSD will make the final determination regarding the disposition of the ineligible costs.
- B. Implement a reporting process to reflect the actual time spent for activities completed in each individual unit/premise as was previously recommended in the CSD September 2010 Monitoring Report. Additionally, ensure that labor hours claimed are supported by timesheets and/or daily activity reports.

- C. Implement procedures to ensure only allowable expenditures are claimed in accordance with requirements of OMB Circular A-122 and the grant agreement.

Observation 2: Improper Cost Allocation

As described below, PACE 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 Cost*—PACE allocates direct costs based on budgeted personnel costs instead of the benefits received by each grant. Specifically, at receipt of grant funding PACE estimates the percentage of time personnel will spend on each grant to calculate the allocation percentages used to allocate the costs. These percentages are adjusted to new estimates upon receipt of new grant funding.
- *Indirect Costs*—PACE allocates Human Resources Department costs based on estimated personnel activities.

OMB Circular A-122 states that costs charged to two or more grants should be allocated based on actual cost incurred (benefits received) or on a reasonable proportion to the benefits received. OMB Circular A-122 further states that any cost allocable to a particular award or other cost objective under these principles may not be shifted to other federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award. In addition, Circular A-122 requires the distribution of salaries and wages be supported by personnel activity reports which reflect an after-the-fact determination of the actual activity of each employee.

Recommendations:

- A. Conduct time studies or develop personnel activity reports which reflect actual employee time expended per grant by activity to support allocated costs.
- B. Develop and implement a cost allocation methodology that meets the requirements of OMB Circular A-122.

Observation 3: Inadequate Internal Controls Over Mileage Claims

The Mileage & Parking Claim Record forms submitted by intake personnel do not require employees to record arrival and departure time and time expended for activities completed at each job site. Pursuant to the contracts and OMB Circular A-122, the Grantee may claim reimbursements for actual, allowable, and allocable costs which must be ordinary, necessary, and reasonable for the performance of the award. Without accurate and complete records, PACE cannot ensure claimed costs are eligible and represent the actual cost of performing the grant activities. Furthermore, this weakness increases risk for fraud and abuse.

Recommendation:

Revise the Mileage & Parking Claim Record form to include arrival and departure time and time expended for activities completed at each job site.



Pacific Asian
Consortium
in Employment

November 28, 2011

Mr. David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814-3706

ORIGINAL WITH SIGNATURE

Response to Audit Draft Report

Dear Mr. Botelho:

BACKGROUND AND SCOPE

I would first like to express our appreciation for the program and fiscal audit conducted by your department. It is one of the most comprehensive audits that our organization has ever experienced in its 35 year history in operating federally funded programs. The Department of Finance conducted this extensive audit between February 2011 and October 2011 or over a period of eight months for four multi-year grants totaling \$14.6 million. Over 200 hours of our staff time was devoted to support this audit. Consequently we appreciate the audit result validating that "PACE's expenditures were in compliance with applicable laws, regulations and the grant requirements". Although there are noted exceptions amounting to \$173,518, or a total of 1.19% of total grants audited, we believe that our responses provided in this document will support the legitimacy of these expenditures. We especially take pride in an e-mail acknowledgement from Ms. Kelly Wyatt, a DOF staff auditor, when she stated that ***"Everyone was extremely professional and very helpful. Please give a special thank you to Tue (Lynn) for her assistance. It is a pleasure work with individuals such as her that take such care to do quality work, and to share an environment wherein there is such an attention to detail and an excellent trail of accounting transactions, particularly given the complexities of these contracts' requirements. It is not often that I do testing of accounting controls and find no exceptions."***

Founded 35 years ago, PACE delivers services to improve the economic conditions of close to 60,000 residents of ethnic minority community each year. These services include workforce development, small business development, housing services, early childhood education, financial skills education and energy and environmental services. In our 35-years of serving the community, we made impact on the lives of over 750,000 individuals.

Please see in the following section our responses to exceptions noted in the November 10, 2011 Draft Report-Pacific Asian Consortium in Employment, Department of Community Services and Development Grant Audit:

OBSERVATION 1:

\$173,518 in Ineligible Costs Claimed - PACE claimed and was reimbursed for ineligible costs of \$173,518 for various grants. Specifically, PACE claimed the following ineligible grant expenditures:

***\$100,539** was claimed for employees incentive pay to grant agreement 09B-5519 and 10B-5619. Allowable incentive pay must be consistently applied to federal and non-federal activities. PACE did not provide any information to support that incentive pay is consistently applied to the federal and non-federal activities. As a result, these expenditures were deemed ineligible.*

AGENCY RESPONSE

We did not receive a schedule of how the figure of \$100,539 is derived. Our payroll records indicate that there was no incentive compensation payment for Contract 10B-5619. There were incentive compensation payments totaling \$34,123.67 made to 9 staff members under Contract 09B-5519. However, we believe that we are fully in compliance with the regulations in these expenditures.

According to the Office of Management and Budget (OMB) Circular A-122, Attachment B, No. 8-Compensation for Personal Services, Letter J.-Incentive Compensation, it states that “Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc. are allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered, or pursuant to an established plan followed the organization so consistently as to imply, in effect, an agreement to make such payment.”

Our justifications for being in compliance are the following:

- 1) Under Contract 09B-5519, 9 members of our HEAP staff were awarded incentive compensation for their extraordinary work. Due to a fund transfer from ECIP-HCS to ECIP-Fast Track, our HEAP Team delivered additional \$700,000 utility payments to 1,500 additional low-income families and resulted in helping a total of 15,654 families with their utility payments under this contract. Their extra efforts allowed our program to finish our contract on time. This team worked extra hours and performed above and beyond their regular work load. These

incentive payments were “allowable” in accordance with the intent of this OMB regulation because they were awarded to employees “based on cost reduction, or efficient performance, suggestion awards, safety awards, etc.”

2) PACE Incentive Compensation Policy has been consistently applied to various federal and non-federal contracts. Documentation is in place to support that the agency does provide incentive compensation for other federal and non-federal contracts other than LIHEAP. Incentive compensation were instituted at PACE to recognize and award special efforts and outcomes delivered. We believe that this policy is one of many reasons that the organization has consistently met and exceeded nearly all our program goals and contributed to high staff morale and longevity of our employee tenure. On a long-term basis, this policy contributes to cost reduction and program efficiency because our employee turnover rate is significantly lower than the industry average.

3) We are in compliance with the OMB Circular where there was “good faith agreement between the organization and the employees before the services were rendered, and that because the organization so consistently implies to make such payment if expected outcomes are realized.” For example, the agency did communicate with the HEAP Team in advance that incentive compensation would be made if they could complete serving 1,500 additional families on top of their regular workload before the contract term is up. This team organized themselves, rearranged their work schedule and worked extra hours and extremely hard to deliver additional services without additional new hires. (There was no time to recruit, screen, select and train new hires to meet this demand surge in a very short time frame.)

4) The total annual wages of staff receiving incentive compensation under Contract 09B-5519 are determined to be reasonable and fall within the perimeter of other similar occupations in the non-profit community. These wages, including incentive compensations, are either at or below the rates under the Davis Bacon Act since the network agencies implemented the DOE ARRA programs.

We believe that this incentive compensation expenditure of \$34,123.67 under Contract 09B-5519 is in full compliance with the regulations and legitimate. (We have no information on the balance of \$66,414.33 out of “\$100,539 ineligible costs stated in the audit report.”

***\$37,786** was claimed for ineligible Other Labor charges to grant agreements 08C-1719, 09B-5519, and 10B-5619. Specifically, PACE claimed \$170.72 in labor costs to schedule each job for installation and/or repair. However, information provided by PACE to CSD supported an allowable rate of \$50 for this service as of March 15, 2007. Therefore, only \$50.00 per job scheduled for installation and/or repair is allowable.*

AGENCY RESPONSE

a. Per all above listed contracts, an approved labor rate from CSD was \$50-\$54 for 08C-1719 and 09B-5519; \$57-\$60 for 10B-5619 per hour, not \$50 as stated on the audit report. These labor rates are for both Weatherization / EHCS services stipulated under CSD contract, Exhibit B, Section 5 under "Labor Reimbursement", Line #e "Other Labor", Bullet i:

"Labor hours for other personnel are billable only if there are no billable hours for Weatherization or EHCS crew members for these services. The approved labor rate will be allowable for Weatherization and EHCS crew members only."

b. Furthermore, per CSD contract, Exhibit B, Section 5 under "Labor Reimbursement", Line #e "Other Labor", Bullet ii:

"When the installation of a measure is subcontracted and there are no billable labor hours for Weatherization or EHCS crew members, Contractor shall bill, in addition to the subcontracted expenditure, actual labor hours incurred by other personnel associated with the direct facilitation of that subcontracted measure. The approved labor rate will not be allowable for other personnel under these circumstances. A modified fixed fee labor rate determined by the Contractor or actual labor cost shall be used. Any modified fixed fee labor rate that is to be used must be submitted to CSD for approval prior to requesting reimbursement for these costs."

Our agency followed the exact procedure described above and obtained CSD approval for \$170.72 for each ECIP HCS Repair and Replacement unit for these subcontracted activities. The \$170.72 is not just for "scheduling" as was erroneously stated in the audit report. This CSD approved rate includes other support cost as allowed in the above referenced contract component.

Please see attached May 17, 2007 CSD Monitoring Report E-06-035 for this approval. It states that "CSD suggested that PACE conduct a time and motion study related to the delivery of direct services under ECIP HCS repair replacement. The agency agreed to conduct the study. The agency submitted the data from the other labor time study, resulting in a cost per unit in the amount of \$170.72. CSD reviewed the data submitted and agreed that the agency can, effective May 1, 2007, charge the flat rate of \$170.72 for each ECIP HCS repair replacement furnace for other labor lime item."

We believe that this Other Labor expenditure of \$37,786 is legitimate and in full compliance with regulations and contractual terms.

\$11,246 ineligible labor costs were claimed for microwave installations and refrigerator recycling disposal fees:

For microwave installations, \$6,600 in ineligible labor costs were claimed to grant agreements 09B-5519 and 10B-5619. PACE claimed 1.5 hours per installation. However, the timesheets

supported 30 minutes or less per installation. Therefore, only 30 minutes per installation is allowable.

AGENCY RESPONSE

Premise of Contract Terms: Please note the following Reimbursement Guidelines in Contract #09B-5519 and other previous and subsequent contracts that guide how reimbursement should be claimed. In Exhibit B Budget Detail and Payment Provision, Section 4 A, Claim for Reimbursement, it states *"Pursuant to the federal block grant and applicable regulations, Contractor may only claim reimbursements for actual, allowable, and allocate direct and indirect costs. **For administrative efficiency during the term of this Agreement, CSD has incorporated fixed fees and other mechanisms for Contractor to use to seek reimbursement for various program services and activities on a monthly basis.** At the end of the term of this Agreement, Contractor shall report actual costs incurred for actual expenditures up to any applicable maximum amounts set by this Agreement. Any reimbursements received over the above Contractor's actual costs shall be reported as Excess Income, pursuant to the procedures in Close-out Report, Section 5.(C) below."*

The fixed fee schedule may be adjusted from time to time depending on changed interpretation of units of service and adjusted work flow. All fixed fee schedule and any subsequent adjustment are subject to the prior approval of CSD.

Our agency has closely adhered to this contractual term and followed the procedures prescribed by CSD. We claim reimbursements using the fixed fee schedule and other mechanisms approved by CSD during the contract term. At the closeout, we submit to CSD our actual expenditure based on our actual expenditure record. Reimbursement received over the contract term is reconciled with expenditures reported in EARS at the time of closeout.

Microwave Installation:

Prior to July 2010, our definition of one unit of service for Microwave Installation is based on 1.5 hours of labor. This 1.5 hour of labor incorporates other labor costs on top of the actual installation of a microwave oven. These other labor costs included: PS-Inventory obtaining purchase order, placing the order and once the order is received, placing the order into Servtraq system; Installer checking for proper grounded outlet; installer removing old microwave and disabling it by cutting the cord and breaking the microwave door; installer uploading the unpacking microwave; installer setting clock and testing new microwave; installer explaining warranty and operations of new microwave to the recipient; installer placing old microwave to storage area for recycling; office staff (Data Specialist) double-checking installation on all documents, then entering microwave information and client information into Servtraq; and the Senior Program Specialist reviewing data for reports. Based on our detailed study, it takes 1.5 hour – including both the actual installation, support and data management - to complete this task.

After July 2010, our agency revised the reimbursement claim and submitted only the actual microwave installation labor to CSD which is 30 minutes per microwave installation.

We do not agree that there are ineligible labor costs of \$6,600 as stated.

For Refrigerator disposals, \$4,646 in ineligible labor costs were claimed to Grant agreements 08C-1719, 09B-5519 and 10B-5619. PACE claimed from 1 to 1.5 hours of labor costs for each individual refrigerator recycled. However, the vendor invoices reviewed reflect nine or ten refrigerators recycled during each trip to the recycler. The \$4,646 in ineligible refrigerator recycling labor costs were calculated based on estimating an average of nine refrigerators recycled during each trip and allowing one labor hour per trip.

AGENCY RESPONSE

As it is indicated in the above stated "Contract Premise", for administrative efficiency, our agency, practiced by all LIHEAP contractors statewide, we claimed reimbursements during the contract terms based on a fixed fee schedule and other mechanism permitted under the contract term. All actual expenditures are reconciled at the closeout. All our expenditures are proved to be allowable, necessary and reasonable.

We do not agree with the finding of \$4,646 ineligible costs stated in the audit report.

\$10,000** was claimed to grant agreements 09B-5519 and 10B-5619 for ineligible consultant costs. PACE entered into a \$500 per month consulting agreement for liaison services between the City of Los Angeles Community Development Department (CDD) and its network of service providers and the LIHEAP service providers for the Los Angeles City/County, as well as Community Action Boards. However, PACE was unable to provide any reports or documentation of the services performed by the consultant. The grant contracts state that allowable Assurance 16 expenses include only actual costs that are directly attributable to the performance of the specific grant agreement and are reasonable and necessary as determined by **the State for the purpose of delivering services.

AGENCY RESPONSE

Approved by CSD, a consulting agreement was entered between four Los Angeles County based LIHEAP contractors and Ms. Arleen Novotney to provide outreach, coordination and leveraging services in the Los Angeles City and Los Angeles County areas. This project was the fruit of months-long negotiation, planning and collaboration amongst these entities and with the L.A. City and L.A. County agencies operating CSBG programs. CSD approved that each of the four Los

Angeles based LIHEAP contractors were to enter into four separate consulting agreements with Ms. Novotney at the rate of \$500 each month.

The primary function of this consultant was to keep Los Angeles City municipality agencies informed as to the distribution, services and leveraging efforts between the Los Angeles City, LIHEAP agencies and Los Angeles Community Development Department (CDD) that oversees CSBG programs that serve low-income residents. The consultant has also helped with outreach and leveraging activities with all local cities in Los Angeles County. She also serves to coordinate outreach activities with the other LIHEAP agencies within the county. In addition, she provided training for City and County personnel how to use the coordinated referral system developed by the consultant to further outreach into other City and County networks with a similar low-income based clientele. All activities are year round and continuous.

Monthly reports were submitted to Los Angeles City CDD (and copied to four locally based LIHEAP contractors) until October 2009 when the CDD no longer required this reporting due to a significant change in its management and the reorganization of their CSBG network. Reports for the period prior to October 2009 and for subsequent periods are on file and available for review.

We believe that this expenditure of \$10,000 is necessary, reasonable and legitimate.

\$9,159 was claimed for ineligible training costs to grant agreement o8C-1719, 09C-1819, 09B-5519 and 10B-5619. The expenditures included \$6,920 for soft skills training and \$1,839 for travel expenses and fees to attend a Washington D.C. convention. Additionally, \$400 was claimed for cancellation fees. Furthermore, these training expenditures were claimed under a cost category limited to only weatherization training.

AGENCY RESPONSE

PACE is fully in compliance with the requirements of OMB Circular A-122, Attachment B, Section No. 29, Meeting and Conferences, and Section No. 49, Training Costs, and its grant agreements in connection with claimed costs of \$9,159.

These regulations state that costs of meetings and conferences are allowable if “the primary purpose of which is the dissemination of technical information”; and “this includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences.” The regulations did not specifically prohibit “soft skills” technical training which is necessary and essential to the efficiency operation and success of the programs.

PACE has consistently implemented a policy of maintaining a program of instruction and training that is designed to increase the vocational effectiveness of all staff (both weatherization crew members and other members of the program that operates HEAP and have essential support and management roles) in order to facilitate the effective and efficient administration of federally funded programs and grant agreements.

Training costs incurred by PACE meet the reasonability criteria because they represent costs generally recognized as ordinary and necessary for the operation of the organization and performance of the award. The organization exercised due care and prudence in authorizing the disbursement for training costs given its responsibility to clients, employees, and funding source in ensuring the objectives of grant agreements are achieved.

We believe that the expenditure of \$9,159 was necessary, reasonable and legitimate to support the efficiency and success of the very complex programs.

\$4,788 was claimed for food and drinking water for employees. \$3,906 was claimed for a luncheon to meet a new PACE Director, several on-site non-technical employee training events, a departmental teambuilding event, and catering for off-site soft skills training. Additionally, \$882 was claimed for drinking water which is provided for all employees. These ineligible expenditures were claimed to grant agreements 08C-1719, 09C-1819, 09B-5519 and 10B-5619.

AGENCY RESPONSE

PACE is fully in compliance with the requirements of OMB Circular A-122, Attachment B, No. 13 – Employee Morale, Health, and Welfare Costs and its grant agreements in connection with claimed costs of \$4,788. Paragraph “a” of this section states that “The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the non-profit organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.”

PACE’s established practice and custom is to provide for the maintenance and improvement of working conditions, employer-employee relations, employee morale, and most importantly employee performance. The furnishing of food and water to employees/trainees in conjunction with training activities accomplishes the goals of maintaining and improving employee performance and the successful achievement of the grant agreement goals and objectives. Furthermore, the incidental cost for food and water consumed during employee training is ordinary and necessary for the operation of the organization and performance of the award. The organization exercised due care and prudence in authorizing the disbursement for training costs given its responsibility to clients, employees, and funding source in ensuring the objectives of grant agreements are achieved.

The audit report incorrectly characterized a luncheon expense for solely designed to “meet the new director”. This function was primarily designed for the new director to outline new expectations, setting performance standards and communicate the importance of team work.

We believe the expense of \$4,788 was “for the organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance” and therefore necessary, reasonable and legitimate.

DOF RECOMMENDATIONS:

A. *PACE should return \$173,518 in ineligible expenditures claimed to CSD. Additionally, because the audit results are based on a sample of transactions, CSD should determine whether additional amounts should be returned related to the issues identified above. CSD will make the final determination regarding the disposition of the ineligible costs.*

AGENCY RESPONSE

Claimed and reimbursed costs for \$173,518 meet the allowability criteria as specified in OMB Circular A-122 and the contract agreements. The claimed and reimbursed costs are reasonable, allocable and necessary for the effective and efficient administration of the award and operation of the organization. The treatment of costs is consistent with established policies, procedures and practices of the organization that are applied uniformly to both federally financed and other activities of the organization.

Based on the explanations provided above, we believe that PACE should not return \$173,518 to CSD.

B. *Implement a reporting process to reflect the actual time spent for activities completed in each individual unit/premises as was previously recommended in the CSD September 2010 Monitoring Report. Additionally, ensure that labor hours claimed are supported by timesheets and /or daily activity reports.*

AGENCY RESPONSE

Reporting process to reflect the actual time spent for activities and labor hours supported by timesheets and documentations are in place. This process and documentation were fully accessible during the auditing period.

1. Field staff Daily Work Activity Reports (DWA) or timesheets:

- All field staff involved with the field work must submit timesheets with the following information:
- Name of staff, Crew leader's name and their installers' names, Date, Address, Time in/out in increments of no less than 15 minutes per category/code;
- Any information not listed on DWA Report must be documented on comment or blank sections for accurate reporting;
- Submissions of timesheets to Supervisors for review to ensure accuracy and completeness such as measures installed in each unit accounted for with quantity of materials and labor hour(s), completion of needed information and/or accurately charged to the appropriate contract code(s);
- All completed timesheets approved by their immediate supervisor must be submitted to Program Specialist- Records/Tracking for review by the end of the day for payroll entries; final approvals on weekly basis are done by Program Manager;
- Field staff are tasked to file only timesheets applicable to the unit(s) with where they worked by address and accurate contract(s) codes documented;

2. Data Input & Billing:

- All applicable DWA reports are separated by each dwelling and highlighted the applicable measures and time spent by the crew members by the Support Clerk; highlighting for better review/audit;
- Data Specialist obtains all copies of DWA reports to enter all applicable labor for each individual measures involved in each dwelling;
- Each measure with the actual amount of time spent by each crew member will be inputted in our In-House database program Serv-Traq on each reporting line item;
- Actual Crew member's base compensation with benefits will be pre-entered into the system, revised rate if staff compensates at a higher rate.

C. Implement procedures to ensure only allowable expenditures are claimed in accordance with requirements of OMB Circular A-122 and the grant agreement.

AGENCY RESPONSE

PACE has implemented policies and procedures to ensure only allowable expenditures are claimed in accordance with requirements of OMB Circular A-122 and the grant agreements. At PACE's December 16, 2009 Board of Directors meeting, the governing board approved an updated Accounting and Financial Policies and Procedures Manual that further details such procedures. This manual provides that PACE shall charge costs that are reasonable, allowable and allocable to Federal awards or grant agreements directly or indirectly. All unallowable costs are to be segregated from allowable costs in order to assure that unallowable costs are not charged to Federal awards or grant agreements. Additionally, the manual provides that all costs

charged to federal awards must meet the allowability criteria as specified in OMB's Circular A-122 Attachment A, Section A., No. 4 Factors Affecting Allowability of Costs.

Our organization's procedure to ensure that only allowable expenses are claimed is further supported by the auditor's acknowledgement when she stated that "*.....Please give a special thank you to Tue (Lynn) for her assistance. It is a pleasure work with individuals such as her that take such care to do quality work, and to share an environment wherein there is such an attention to detail and an excellent trail of accounting transactions, particularly given the complexities of these contracts' requirements. It is not often that I do testing of accounting controls and find no exceptions.*"

OBSERVATION 2: IMPROPER COST ALLOCATION

PACE did not allocate cost 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 Cost – *PACE allocates direct costs based on budgeted personnel costs instead of the benefits received by each grant. Specifically, at receipt of grant funding PACE estimates the percentage of time personnel will spend on each grant to calculate the allocation percentages used to allocate the costs. These percentages are adjusted to new estimates upon receipt of new grant funding.*

AGENCY RESPONSE

Our agency does not allocate direct costs based on budgeted personnel cost. There is no support to the claim made in the audit report that "(our agency), at the receipt of grant funding, PACE estimates the percentage of time personnel will spend on each grant to calculate the allocation percentages used to allocate the costs." This is not our practice.

The allocation of direct costs is based on (a) actual labor costs for personnel who devote 100% of their time to the associated contracts; and (b) for personnel whose costs are allocated over multiple contracts, such as the Program Director, Assistant Program Director and Senior Program Specialist, their allocation is based on the amount of work load, functions they performed for each contract, amount of time they need to complete their tasks.

A time study is conducted periodically for those personnel who need to perform for multiple contracts and to support the allocation based on above stated criteria. These time studies are on file for review.

While it is correct that these percentages are adjusted upon receipt of new grant funding, it is a practice that we believe is for the best interest of funding agencies and for the efficiency of program operation and for cost efficiency.

For example, it does not make any sense to hire a separate new Program Director or a separate new Assistant Director for Weatherization each time the agency receives new grant funding such as DOE ARRA. Instead, we take a comprehensive assessment of their additional duties and functions to be performed for each contract using the method described above and allocate their time to multiple contracts accordingly.

All programs that had shared personnel were federally funded. ARRA, a temporary program, has placed the burden on these staff positions to complete all goals while continuing to perform on all other contracts. This could not have been accomplished without utilizing the very experienced senior staff to share duties on several contracts.

We therefore disagree with the audit statement that our Direct Labor costs are improperly allocated.

***Indirect Costs** – PACE allocates Human Resources Department costs based on estimated personnel activities.*

AGENCY RESPONSE:

Our LIHEAP contracts with CSD allow an administrative charge of 8% of total contract. Our Human Resource Department costs are one portion of the 8% administrative costs allowed.

The Indirect Cost allocation of Human Resources Department follows the same methodology and staffing decision described above for those personnel in the Direct Labor category but have functions and responsibilities over multiple contracts. We do not allocate Human Resource Department costs based on estimated personnel activities.

For example, we do not hire a new Human Resource Director each time we receive a new grant. Instead we reallocate his or her time based on adjusted responsibilities if a new grant requires new hires and increased responsibility of overseeing increased payroll and benefit related responsibilities. Time studies are conducted annually to support our allocation method.

PACE's Financial Policies and Procedures Manual states that: (1) As much as possible, joint costs will be charged directly to benefiting programs; and (2) Joint costs are allocated to all programs on an equitable basis regardless of any limits imposed by funding sources. Additionally, each federal award or other activity shall be charged its fair share of costs.

Our allocation of Human Resource Department costs adhere to the guidelines described in the above-mentioned Manual and adhere the principle provided in OMB Circular 122 Section A.4

which states that "allocable costs (should) benefit both the award and other work and can be distributed in reasonable proportion to the benefits received, or is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

Our Human Resource Department cost is distributed to the stated awards in reasonable proportion and is based on actual benefits and level of work performed.

Recommendations:

A. *Conduct time studies or develop personnel activity reports which reflect actual employee time expended per grant by activity to support allocated costs.*

AGENCY RESPONSE:

It is our practice that we conduct time studies that is supported with personnel activity reports reflecting actual employee time expended for each grant. We will continue the practice and to continuously improve our system.

B. *Develop and implement a cost allocation methodology that meets the requirements of OMB Circular A-122.*

AGENCY RESPONSE

PACE has developed and implemented a cost allocation methodology that meets the requirements of OMB Circular A-122. The costs allocation requirement of OMB Circular A-122 are contained in the governing board approved Financial Policies and Procedures Manual.

We appreciate the extensive work that you and your dedicated staff have invested in this audit. Your observations and recommendations will ultimately further strengthen our services in the community.

Sincerely,

Original signed by:

Kerry N. Doi

President and Chief Executive Officer

Enclosures

Cc. Mr. John Wagner; Ms. Linne Stout; Mr. Michael Fontaine; Ms. Cynthia Llana; Mr. Miguel Perez

EVALUATION OF RESPONSE

The Department of Finance, Office of State Audits and Evaluations, reviewed the Pacific Asian Consortium in Employment's (PACE) response, dated November 28, 2011, to our draft audit report. The following comments relate to Observations 1 and 2. PACE did not provide a response to Observation 3. The Attachment to PACE's response was removed for brevity and consisted of a monitoring report issued by the Department of Community Services and Development (CSD) on May 17, 2007.

Observation 1: \$173,518 in Ineligible Costs Claimed

- **\$100,539 for Employee Incentive Pay**

PACE states in its response that they have not received a schedule regarding how the \$100,539 was derived. However, PACE acknowledged \$34,124 of incentive payments under grant agreement 09B-5519. The schedule listing \$100,539 in incentive payments was provided by PACE on May 18, 2011. This information can be provided to CSD and/or PACE on request.

Additionally, although requested multiple times, PACE did not provide documentation to demonstrate that the incentive payments were consistently applied to federal and non-federal activities. Therefore, the observation remains unchanged in the report.

- **\$37,786 for Other Labor Charges**

The March 15, 2007 activity report provided by PACE to CSD supports a labor rate of \$50 incurred by other personnel associated with the direct facilitation of subcontracted measures. This rate is distinct from the approved labor rate for Weatherization and Emergency Heating and Cooling Services (EHCS) crew members under CSD contracts. The \$170.72 rate asserted by PACE pertains to only Energy Crisis Intervention Program (ECIP) EHCS repair and/or replacement of furnaces.

If the \$170.72 were allowed for the ECIP EHCS repair and/or replacement of furnaces, questioned costs would decrease by \$17,264 to \$20,522 for Other Labor Charges. However, it is unclear whether this rate would be allowable based on the two documents provided by CSD and PACE. Therefore, we recommend that CSD make the final determination as to allowability of the claims with the \$170.72 rate.

- **\$11,246 in Labor Costs for Microwave Installations and Disposal Fees**

PACE states that CSD has incorporated fixed fees for contractors to use for reimbursement. Actual costs rather than fixed fees apply to these measures, and the timesheets for microwave installation and invoices for refrigerator disposal do not support the amount claimed for labor reimbursement. In addition, PACE states the rate was revised after July 2010 to reflect actual labor time of 30 minutes per microwave installation. The 30 minute per microwave installation rate was used to determine the questioned costs. Therefore, the observation remains unchanged in the report.

- **\$10,000 for Consultant Costs**

As stated in PACE's response, the primary function of the consultant was for the benefit of other agencies. Reports were not provided when requested during our audit. Therefore, the observation remains unchanged in the report.

- **\$9,159 for Training Costs**

OMB Circular A-122, Attachment B, section 29, requires the primary purpose of meetings or conferences be for the dissemination of technical information, and the contracts state that the Training and Technical Assistance cost category shall include costs associated with the completion of weatherization-related training. As a result, the soft skills training was not eligible for reimbursement. Therefore, the observation remains unchanged in the report.

- **\$4,788 for Food and Drinking Water**

PACE asserts these costs are for employee morale, health, and welfare. However, the costs must be recognized as ordinary and necessary to implement the grant. Based on our review, we concluded that expenditures for food and water are not necessary for the implementation of the grant. Therefore, the observation remains unchanged in the report.

Observation 2: Improper Cost Allocation

OMB Circular A-122, Attachment B, section 8.m., states the distribution of salaries and wages must be supported by personnel activity reports reflecting an after-the-fact determination of the actual activity of each employee. We requested and did not receive actual time studies for staff dedicated to CSD weatherization programs and the Human Resources Department. Therefore, the observation remains unchanged in the report.