

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**CHICAGO DEPARTMENT OF FAMILY  
AND SUPPORT SERVICES DID NOT  
ALWAYS CHARGE ALLOWABLE COSTS  
TO THE COMMUNITY SERVICES BLOCK  
GRANT – RECOVERY ACT PROGRAM**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Sheri L. Fulcher  
Regional Inspector General**

**March 2013  
A-05-11-00083**

# *Office of Inspector General*

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

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

In the State of Illinois, the Department of Commerce and Economic Opportunity, Office of Community Development (State) was responsible for approving CAAs' applications for CSBG Recovery Act funds and monitoring CAAs' compliance with Federal requirements. Under the Recovery Act, the State was awarded \$47,232,781 in CSBG funds for FYs 2009 and 2010.

The City of Chicago, Department of Family and Support Services (Agency) a unit of local government under State of Illinois law, provides services to households within the City of Chicago. The Agency works to promote the well-being of individuals, support families and strengthen neighborhoods by administering resources to a network of community-based organizations, social service providers and institutions. For the period May 1, 2009, through September 30, 2010, the State awarded the Agency \$19,444,226 in CSBG Recovery Act funds (the award). The Agency expended \$18,319,312 of the award. The remaining \$1,124,914 was not expended and was returned to the State.

By accepting grant awards, States agree to comply with Federal regulations governing the administration of the awards, including compliance with various cost principles. The CSBG Act requires that States receiving CSBG funds ensure that cost and accounting standards of the Office of Management and Budget apply to a recipient of the funds. Nonprofit CAAs are subject to 45 CFR part 74. These regulations state that the allowability of costs will be determined in accordance with 2 CFR part 230, *Cost Principles for Non-Profit Organizations*. To be allowable under an award, costs must be reasonable for the performance of the award and allocable to the award under these principles.

### OBJECTIVE

Our objective was to determine whether selected CSBG Recovery Act costs that the State claimed for the Agency's program expenditures were allowable under the terms of the Recovery Act award and applicable Federal requirements.

## **SUMMARY OF FINDINGS**

Of the \$3,218,569 in CSBG Recovery Act costs that the State claimed on behalf of the Agency and that we reviewed, \$3,026,455 was allowable under the terms of the Recovery Act award and applicable Federal requirements. The State claimed \$40,247 in unallowable costs on behalf of the Agency, including:

- \$23,104 in costs that were inadequately documented, and
- \$17,143 in costs that were incorrectly charged.

In addition, the State claimed \$151,867 in costs that may not have been allocable to the Recovery Act award and thus were potentially unallowable.

The unallowable costs claimed on behalf of the Agency occurred because the Agency did not follow its policies and procedures requiring that all costs be supported with source documentation. Furthermore, the Agency did not perform an adequate review of subcontractor documentation to ensure that costs were correctly charged to the Recovery Act award. The potentially unallowable costs the State claimed on behalf of the Agency occurred because the Agency had inadequate monitoring procedures to ensure that costs charged to the Recovery Act award by subcontractors were properly allocated in compliance with 2 CFR pt. 230.

## **RECOMMENDATIONS**

We recommend that the State:

- return to the Federal Government unallowable costs totaling \$40,247,
- work with the Agency to determine what portion of the \$151,867 is allowable and refund to the Federal government any amount determined to be unallowable,
- ensure that the Agency strengthens its monitoring procedures to ensure that costs charged to Federal awards are in compliance with applicable Federal requirements, and
- ensure that the Agency follows its policies and procedures regarding the adequate documentation of all costs charged under Federal awards.

## **AGENCY COMMENTS**

In written comments on our draft report, the Agency partially disagreed with our first recommendation and concurred with the remaining recommendations.

Regarding our first recommendation, the Agency provided documentation for \$3,529 in administrative costs. In addition, the Agency subsequently provided documentation for the equipment purchase of \$13,850 incurred by a subcontractor. The Agency's comments are included as Appendix A.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing and verifying the additional documentation provided by the Agency, we accepted the administrative and equipment costs of \$3,529 and \$13,850, respectively. The findings in this report have been updated to reflect the acceptance of these supported costs. As a result, we recommend that the State reimburse \$40,247 to the Federal Government.

## **STATE COMMENTS**

In written comments on our draft report, the State concurred with our findings and outlined steps for implementing our recommendations. The State's comments are included as Appendix B.

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## **INTRODUCTION**

### **BACKGROUND**

#### **The American Recovery and Reinvestment Act**

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

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

The CSBG program was reauthorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, 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 and Human Services, the Administration for Children and Families (ACF), Office of Community Services, administers the CSBG program.

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

#### **Illinois Department of Commerce and Economic Opportunity**

In the State of Illinois, the Department of Commerce and Economic Opportunity, Office of Community Development (State) was responsible for approving CAAs' applications for CSBG Recovery Act funds and monitoring CAAs' compliance with Federal requirements. Under the Recovery Act, the State was awarded \$47,232,781 in CSBG funds for FYs 2009 and 2010.

#### **City of Chicago, Department of Family and Support Services**

The City of Chicago, Department of Family and Support Services (Agency), a unit of local government under State of Illinois law, provides services to households within the City of Chicago. The Agency works to promote the independence and well-being of individuals, support families and strengthen neighborhoods by providing direct assistance and administering resources to a network of community-based organizations, social service providers, and institutions. The Agency program listing includes three major program areas: 1) children and youth services; 2) adult and family services which include community service center division, homeless and emergency services, domestic violence division and workforce development division; and 3) senior services. Services that the Agency provides include mentoring, job readiness training, and senior assistance.



For the period May 1, 2009, through September 30, 2010, the State awarded the Agency \$19,444,226 in CSBG Recovery Act funds (the award). The Agency expended \$18,319,312 of the award. The remaining \$1,124,914 was not expended and was returned to the State.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether selected CSBG Recovery Act costs that the State claimed for the Agency's program expenditures were allowable under the terms of the Recovery Act award and applicable Federal requirements.

### **Scope**

We reviewed \$3,218,569 of the \$18,319,312 claimed by the Agency under its CSBG Recovery Act award with the State of Illinois for the period of May 1, 2009, through September 30, 2010. This review is part of a series of audits planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act. We did not review the overall internal control structure of the State or of the Agency. Rather, we reviewed only the internal controls that pertained to our objective.

We conducted our audit from July 2011 to January 2012 and performed fieldwork at the Agency's administrative office, the City of Chicago comptroller's office and at six subcontractor locations throughout Chicago, Illinois.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations and guidance;
- reviewed the State's CSBG ARRA State plan for the period May 1, 2009, through September 30, 2010;
- reviewed contractual agreements between the State and Agency for the period May 1, 2009, through September 30, 2010;
- reviewed the Agency's board of directors' meeting minutes;
- reviewed the Agency's accounting policies and procedures;
- interviewed State officials to gain an understanding of their fiscal and program monitoring procedures;
- interviewed Agency officials to gain an understanding of the costs charged under the award;

- reviewed the State’s fiscal and program monitoring reports;
- reviewed correspondence between the State and Agency officials;
- reviewed the Agency’s audited financial statements for calendar year 2008, 2009, and 2010;
- reconciled the costs that the State claimed under the award with the Agency’s general ledger;
- analyzed the general ledger and identified all subcontractors related to this award;
- judgmentally selected six subcontractors determined to be high risk, based on dollars awarded and monitoring reviews;
- judgmentally selected and reviewed 31 vouchers for six subcontractors, totaling \$3,203,742 (\$649,901 in salary and related costs and \$2,553,841 in non-salary costs) based on risk factors including whether the vouchers:
  - were high dollar;
  - were recorded near the end of the award period or outside of the award period; or
  - appeared to be disproportionately allocated to the CSBG Recovery Act program;
- judgmentally selected and reviewed 3 vouchers for the administrative costs incurred at the Agency totaling \$14,827 based on the same risk factors noted above; and
- discussed findings with the State and Agency officials.

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

### **FINDINGS AND RECOMMENDATIONS**

Of the \$3,218,569 in CSBG Recovery Act costs that the State claimed on behalf of the Agency and that we reviewed, \$3,026,455 was allowable under the terms of the Recovery Act award and applicable Federal requirements. The State claimed \$40,247 in unallowable costs on behalf of the Agency, including:

- \$23,104 in costs that were inadequately documented, and
- \$17,143 in costs that were incorrectly charged.

In addition, the State claimed \$151,867 in costs that may not have been allocable to the Recovery Act award and thus were potentially unallowable.

The unallowable costs claimed on behalf of the Agency occurred because the Agency did not follow its policies and procedures requiring that all costs be supported with source documentation. Furthermore, the Agency did not perform an adequate review of subcontractor documentation to ensure that costs were correctly charged to the Recovery Act award. The potentially unallowable costs the State claimed on behalf of the Agency occurred because the Agency had inadequate monitoring procedures to ensure that costs charged to the Recovery Act award by subcontractors were properly allocated in compliance with 2 CFR pt. 230.

## **UNALLOWABLE COSTS**

### **Federal Requirements**

Section 678D(a)(1)(B) of the CSBG Act requires that States that receive CSBG funds ensure that cost and accounting standards of the OMB apply to a recipient of the funds under this subtitle. As a result, ACF determined that non-profit CAAs<sup>7</sup> are subject to 45 CFR pt. 74. Federal regulations (45 CFR § 74.27(a)) state that the allowability of costs for non-profit organizations will be determined in accordance with 2 CFR pt. 230 (formerly OMB Circular A-122), *Cost Principles for Non-Profit Organizations*.

Pursuant to 2 CFR pt. 230, App. A, A.2.a. and A.2.g., to be allowable under a Federal award, costs must be reasonable, allocable, and adequately documented.

A cost that benefits both a Federal award and other work is allocable to a Federal award if the cost can be distributed in reasonable proportion to the benefits received. Any cost allocable to a particular award or other cost objective may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by terms of the award (2 CFR pt. 230, App. A, A.4).

Pursuant to 2 CFR pt. 230, App. B, 8.m.(1), salary and wage costs should be based on documented payrolls and the distribution to awards must be supported by personnel activity reports.

### **Costs Inadequately Documented**

The Agency did not adequately document \$23,104<sup>1</sup> in costs claimed to the Recovery Act award. For these costs incurred by subcontractors, neither the Agency nor the subcontractors were able to provide invoices or receipts to adequately support such costs. For example, supplies were purchased by a subcontractor which neither the Agency nor the subcontractor could provide an invoice or receipt. Also, training costs were claimed for the contracted service of a literary coach to assist the staff in enhancing their writing skills however, the documentation provided was

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<sup>1</sup> Unsupported costs charged to the Recovery Act award include general liability insurance and utilities (\$9,534), training for staff (\$7,120), supplies (\$4,100), and automotive insurance (\$2,350).

inadequate to determine if the service was actually performed and which members of the staff attended the training.

The Agency claimed these unallowable costs to the Recovery Act award because it did not follow its policies and procedures requiring that all costs be supported with source documentation. Due to the lack of adequate documentation, we were unable to determine if these costs were incurred specifically for the purpose of the Recovery Act award, benefitted the CSBG program, or were necessary for the overall operation of the organization.

### **Costs Incorrectly Charged**

The Agency incorrectly charged \$17,143 in costs claimed to the Recovery Act award. Of this amount, \$11,500 was for excess fees related to a subcontractor service contract. The fee for service contract allowed for a service cost of \$3,300 per unit however; the Agency was charged and provided payment for \$3,800 per unit. This \$500 overage per unit was applicable to 23 units, totaling \$11,500 in additional expense. In discussions with Agency officials, the correct unit cost was \$3,800 per unit; however, it was not formalized with a contract modification. The remaining \$5,643 pertains to incorrect charges of costs incurred by subcontractors. For example, one subcontractor claimed \$4,777 in excessive employer FICA charges, while another subcontractor, who was tax-exempt, claimed \$866 in expense related to taxes incurred.

The Agency claimed these unallowable costs to the Recovery Act award because it did not perform an adequate review of subcontractor documentation to ensure that costs were correctly charged to the Recovery Act award.

## **POTENTIALLY UNALLOWABLE COSTS**

### **Costs Potentially Not Allocable**

The Agency allocated \$151,867 in certain costs claimed by subcontractors that may not have been allocable to the Recovery Act award. Neither the Agency nor the subcontractors were able to adequately support costs totaling \$117,553<sup>2</sup> that were directly charged to the Recovery Act award. For example, costs incurred by subcontractors such as heating and cooling repairs, utility bills, and the annual financial review were charged entirely to the Recovery Act award. These costs benefitted multiple programs while the documentation provided was inadequate to show that these costs related solely to the Recovery Act award. In addition, the Agency charged \$34,314 in subcontractor salary costs that were allocated to the Recovery Act award based on incomplete personnel activity reports. The activity reports provided by one subcontractor reflected the total hours and activities performed for each day however, the allocation of time to the activities worked was incomplete. Without complete and accurate supporting documentation, we could not determine whether the subcontractor salary costs were allocable to the Recovery Act award in reasonable proportion to the benefits received.

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<sup>2</sup> The Agency directly charged costs that include operating costs (\$76,201), professional/technical services (\$28,286), materials and supplies (\$7,347), equipment (\$4,674), and other (\$1,045).

The Agency charged these potentially unallowable costs to the Recovery Act award because it had inadequate monitoring procedures to ensure that costs charged to the Recovery Act award by subcontractors were properly allocated in compliance with 2 CFR pt. 230. We are deferring the \$151,867 in questionable charges to the State, which should determine the allowable amount and refund the unallowable amount to the Federal government.

### **LACK OF ADEQUATE MONITORING PROCEDURES**

The State did not have adequate monitoring procedures to ensure that the CSBG Recovery Act costs claimed for the Agency's program expenditures were allowable, allocable, and adequately supported in accordance with terms of the Recovery Act award and applicable Federal requirements. The State conducted several on-site fiscal reviews at various subcontractor locations and concluded that the Agency appeared to be in compliance with CSBG ARRA Federal requirements. However, upon our review, we determined that the Agency was not always in compliance with the CSBG ARRA Federal and State rules, regulations and policies. We identified that the Agency claimed costs that were not supported with adequate documentation as well as costs that were incorrectly charged. In addition, the Agency claimed potential unallowable costs that were not entirely allocable to the Recovery Act award.

### **RECOMMENDATIONS**

We recommend that the State:

- return to the Federal Government unallowable costs totaling \$40,247,
- work with the Agency to determine what portion of the \$151,867 is allowable and refund to the Federal government any amount determined to be unallowable,
- ensure that the Agency strengthens its monitoring procedures to ensure that costs charged to Federal awards are in compliance with applicable Federal requirements, and
- ensure that the Agency follows its policies and procedures regarding the adequate documentation of all costs charged under Federal awards.

### **AGENCY COMMENTS**

In written comments on our draft report, the Agency partially disagreed with our first recommendation and concurred with the remaining recommendations.

Regarding our first recommendation, the Agency provided documentation for \$3,529 in administrative costs. In addition, the Agency subsequently provided documentation for the equipment purchase of \$13,850 incurred by a subcontractor. The Agency's comments are included as Appendix A.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing and verifying the additional documentation provided by the Agency, we accepted the administrative and equipment costs of \$3,529 and \$13,850, respectively. The findings in this report have been updated to reflect the acceptance of these supported costs. As a result, we recommend that the State reimburse \$40,247 to the Federal Government.

## **STATE COMMENTS**

In written comments on our draft report, the State concurred with our findings and outlined steps for implementing our recommendations. The State's comments are included as Appendix B.

# **APPENDIXES**

## APPENDIX A: AGENCY COMMENTS



### DEPARTMENT OF FAMILY AND SUPPORT SERVICES CITY OF CHICAGO

December 12, 2012

Sheri L. Fulcher  
Regional Inspector General for Audit Services  
Office of Inspector General  
Office of Audit Services, Region V  
233 N. Michigan Ave., Suite 1360  
Chicago, Illinois 60601

Re: Response to Report Number - A-05-11-00083

Dear Ms. Fulcher,

This letter is in response to the draft report dated 12/05/12 regarding the review of the CSBG-ARRA program by the U.S. Department of Health and Human Services, Office of Inspector General. The information below addresses the recommendation items noted in the draft report.

Unallowable costs totaling (\$57,626)

**Costs Inadequately Documented:** Regarding the Department of Family and Support Services (DFSS) administrative costs (\$3,529) for the three outstanding expenditures; the outstanding invoices for the administrative costs were located and are attached with this response.

In response to costs incurred by sub-contractors that were not supported by adequate documentation (\$36,954), DFSS will adhere to the recommendation provided and return the costs for the equipment, general liability insurance, staff training, supplies and automotive insurance to the State.

**Costs Incorrectly Charged:** In response to costs incurred by sub-contractors that were not correctly charged (\$17,143), DFSS will adhere to the recommendation provided and return the costs to the State.

Costs Potentially Not Allocable (\$151,867)

In response to costs that are not potentially allocable to the award, DFSS will work with the State as well as the two identified subcontractors to confirm and finalize the allowable costs.



Sheri L. Fulcher  
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DFSS Monitoring Procedures

Delegate agencies are monitored on a regular basis through DFSS' Fiscal Monitoring Unit (FMU). Monitoring reviews are conducted by taking into consideration various factors, such as the amount and type of funding an agency receives the length of time since the previous review and the compliance rating received from the last visit. This process improvement is now formally documented as DFSS' risk assessment methodology for conducting fiscal monitoring.

In addition, DFSS will continue to provide technical assistance and training to its delegate agencies to ensure they are aware of the fiscal requirements and the importance of maintaining proper documentation to support their expenditures. In 2013, DFSS will provide targeted on-site training for delegate agencies that have a rating of non-compliance in key areas of fiscal management.

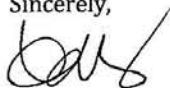
DFSS Policies and Procedures on documentation of costs charged

DFSS will reinforce to its delegate agencies that, per the City's current contractual requirements (see attached), adequate supporting documentation (e.g., cancelled checks, receipts, invoices, bank statements) for incurred and paid expenditures must be maintained and always available for review by the City and/or any funder.

In addition, DFSS along with partnering agencies will continue to conduct random sampling to confirm that the documentation to support the reimbursed costs are allocable, allowable and reasonable.

If there are any questions regarding this response, please contact Harold Campbell at (312) 743-4932.

Sincerely,



Kenya Merritt  
Deputy Commissioner

cc: Evelyn Diaz  
Baronica Roberson  
Harold Campbell

## APPENDIX B: STATE COMMENTS



### Illinois Department of Commerce & Economic Opportunity

Pat Quinn, Governor

February 13, 2013

Report Number: A-05-11-00083

Ms. Sheri L. Fulcher  
Regional Inspector General for Audit Services  
U.S. Department of Health & Human Services  
Office of Inspector General  
233 North Michigan, Suite 1360  
Chicago, IL 60601

Dear Ms. Fulcher:

This letter is the Department of Commerce and Economic Opportunity's (DCEO) response to the *Chicago Department of Family and Support Services Did Not Always Charge Allowable Costs to the Community Services Block Grant – Recovery Act program* report dated January 17, 2013.

The DCEO received \$47,232,781 in 2009 Recovery Act funding. During the same time period as the Recovery Act funds were being spent, DCEO also administered the 2009 and 2010 regular CSBG programs. It should be noted that the DCEO received no administrative funds to administer the Recovery Act funds, and was advised to move quickly to obligate and spend these funds in order to stimulate the economy.

Prior to the awarding of Recovery Act grant funds, the department felt it necessary to meet with the Community Action Agencies to provide direction and instruction on the process for awarding funds, the grant allocation, the need for support documentation, suggested work programs with job creation being the emphasis, the importance of preventing duplication of regular CSBG grant funds, and keeping the Recovery Act funds separate from other funds.

A process similar to the awarding of regular CSBG grant funds was followed with state CSBG staff reviewing individual Community Action Agency Recovery Act applications and budgets. The first Recovery Act funds were obligated in May 2009. During the course of the Recovery Act, several meetings were held to discuss issues and concerns, and again emphasize the importance of documentation and separation of funds.

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Following is DCEO's response to the OIG findings although DCEO concurs with all of the OIG findings, and in fact the DCEO identified some of the same issues during monitoring.

## **UNALLOWABLE COSTS**

### **Costs Inadequately Documented**

The OIG finding states that the DFSS did not adequately document \$23,104 in costs for general liability insurance and utilities, training for staff, supplies and automotive insurance claimed to the Recovery Act award. The DFSS did not adequately review subcontractor documentation to ensure that costs were correctly charged to the Recovery Act award. The DFSS had inadequate monitoring procedures to ensure that costs charged by subcontractors were properly allocated in compliance with 2 CFR pt. 20.

*DCEO Response:* The DCEO is in concurrence with this finding. The DCEO will continue to work with DFSS and all Community Action Agencies to ensure that all applicable federal rules and regulations specific to the CSBG grant awards are being followed. The DCEO will also work with the DFSS to ensure it is following its own policies and procedures. Because of the size of the DFSS, DCEO will continue to encourage DFSS to monitor its subcontractors on a regular basis to ensure costs are being charges correctly, and adequate support documentation is on file.

*Subtotal Unallowable Costs: \$23,104*

### **Costs Incorrectly Charged**

The OIG finding states that the DFSS incorrectly charged \$17,143 in costs for excess fees, employer FICA charges and expenses related to taxes claimed to the Recovery Act award. The DFSS claimed these unallowable costs to the Recovery Act award because it did not perform an adequate review of subcontractor documentation to ensure that costs were correctly charged to the Recovery Act award.

*DCEO Response:* The DCEO is in concurrence with this finding. The DCEO will continue to work with DFSS and all Community Action Agencies to ensure that all applicable federal rules and regulations specific to the CSBG grant awards are being followed. The DCEO will also work with the DFSS to ensure it is following its own policies and procedures. Because of the size of the DFSS, DCEO will continue to encourage DFSS to monitor subcontractors on a regular basis to ensure costs are being charges correctly, and adequate support documentation is on file.

Ms. Fulcher  
February 13, 2013  
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*Subtotal Unallowable Costs: \$17,143*

***Total Unallowable Costs: \$40,247***

#### **POTENTIALLY UNALLOWABLE COSTS**

##### Costs Potentially Not Allocable

The OIG finding states that the DFSS allocated \$151,867 in certain costs claimed by subcontractors that may not have been allocable to the Recovery Act award. The DFSS was unable to provide support documentation, including personnel activity reports, to substantiate the costs which relate to operating costs, professional/technical services, materials and supplies, equipment, and other.

DCEO Response: The DCEO is in concurrence with this finding. The DCEO will continue to work with DFSS and all Community Action Agencies to ensure that all applicable federal rules and regulations specific to the CSBG grant awards are being followed. The DCEO will also work with the DFSS to ensure it is following its own policies and procedures. Because of the size of the DFSS, DCEO will continue to encourage DFSS to monitor subcontractors on a regular basis to ensure costs are being charged correctly, and adequate support documentation is on file

***Total Unallowable Costs: \$151,867***

#### **LACK OF ADEQUATE MONITORING PROCEDURES**

The OIG finding states that the State does not have adequate monitoring procedures to ensure that the Recovery Act costs claimed for DFSS's program expenditures for direct costs were allowable. The DCEO does in fact have fiscal monitoring procedures that test expenditures to ensure they are allowable, necessary, and reasonable.

As stated previously, the DCEO received no administrative funds with which to monitor the Community Action Agencies' use of the Recovery Act funds. The DCEO used regular CSBG funds to conduct monitoring of the Recovery Act funds although only 2 to 2.5 days were allocated for each visit in order to conduct a fiscal review of all 36 Community Action Agencies and one statewide migrant organization. With over 50 delegate sites, it was impossible for DCEO to monitor all on-site.

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Since the first preliminary OIG reports were received, DCEO has stated during meetings with the Community Action Agencies the issues and concerns identified during the OIG reviews, and provided instruction on correcting or avoiding the situation. DCEO CSBG staff has also updated monitoring tools to reflect some of the issues identified during the OIG reviews. DCEO will continue to provide training and technical assistance when issues or concerns are identified.

In conclusion, DCEO believes that based on the this review a total of \$192,114 is unallowable and should be returned to the U. S. Department of Health and Human Services in unrestricted funds. Once this report is final, DCEO will instruct DFSS to reimburse DCEO with unrestricted funds so that DCEO can reimburse the U.S. Department of Health and Human Services.

Should you have questions or wish to discuss this response, please feel free to contact Ms. Gail Hedges at 217/785-1709 or via e-mail at [gail.hedges@illinois.gov](mailto:gail.hedges@illinois.gov).

Sincerely,



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