Program Audit
Follow-up:
Community Action
Agencies/CSBG

Prepared for the Committee on Legislative Research
by the Oversight Division

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THE OVERSIGHT DIVISION conducts its audits in accordance with government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to auditors’ professional qualifications, the quality of audit effort and the characteristics of professional and useful audit reports.

THE COMMITTEE ON LEGISLATIVE RESEARCH is a permanent joint committee of the Missouri General Assembly comprised of the chairman of the Senate Appropriations Committee and nine other members of the Senate and the chairman of the House Budget Committee and nine other members of the House of Representatives. The Senate members are appointed by the President Pro Tem of the Senate and the House members are appointed by the Speaker of the House of Representatives. No more than six members from the House and six members from the Senate may be of the same political party.

AUDITS ARE ASSIGNED to the Oversight Division pursuant to a duly adopted concurrent resolution of the General Assembly or pursuant to a resolution adopted by the Committee on Legislative Research. Legislators or committees may make their requests for program or management audits through the Chairman of the Committee on Legislative Research or any other member of the Committee.
May, 1997

Members of the Committee on Legislative Research:

As required by statute, we have concluded our follow-up review of the December, 1995 program audit report issued on the Community Action Agencies/CSBG program. One year after the completion of a management or program audit, the Oversight Division is required to review the operations of the agency audited to determine whether or not there has been substantial compliance with the recommendations contained in the report.

We are pleased to report that five of the recommendations made by the Oversight Division have been fully implemented, with one recommendation partially implemented and one recommendation not implemented.

The accompanying report includes the original audit findings and recommendations with our comments regarding their status.

Respectfully,

Jeanne Jarrett, CPA, CGFM
Director, Oversight Division
Introduction

The Joint Committee on Legislative Research directed the Oversight Division to perform a program audit in 1995 of the Department of Social Services (DSS) regarding the state's administrative and oversight functions related to community action agencies (CAAs). DSS was designated under Section 660 of the Missouri Revised Statutes 1994 to be the agency responsible for administration of the federal Community Services Block Grant (CSBG) resources passed through to the CAAs. DSS administers the CSBG program in accordance with mandated state assurances included in federal guidelines, P.L. 97-35, as amended.

CAAs are not-for-profit corporations which operate under a charter and bylaws to administer community action programs. Community action programs are community based and operated including an intake, assessment and referral capacity in each county. Programs are designed to target poverty areas. A wide array of services is provided, including those related to employment, education, housing and health services, with an overall focus on removing obstacles which prevent individuals from becoming self-sufficient.

DSS has responsibility for oversight of approximately $10 million in CSBG funds which are passed through to the nineteen (19) CAAs annually.

The original program audit was intended to inform the General Assembly as to whether DSS' administrative and oversight functions relating to the CSBG program were effective and adequate.

Background

History of Community Action

Community action activities emerged in 1964 as a primary initiative of the federal War on Poverty. The Economic Opportunity Act was passed and authorized anti-poverty programs. However, by the early 1970s, the various
programs had not been successful in eliminating the causes of poverty. Consequently, there was a movement to decrease federal involvement toward this effort and to place more emphasis upon the states to direct poverty programs. By 1981, several programs such as Head Start and Weatherization had been transferred elsewhere in the bureaucracy. After President Reagan's inauguration in 1981, the remaining core programs were folded into his new Federalism format and became the Community Services Block Grant (CSBG).

**Community Services Block Grant Act**

The Office of Community Services within the Department of Health and Human Services is the administrative federal agency for CSBG funds. The CSBG legislation is consistent with the historical mission of community action with an emphasis on removing obstacles and solving problems which block the achievement of self-sufficiency. The CSBG Act placed more responsibility on the states to distribute the federal funds and also required the states to provide certain assurances to the federal government with regard to administration of the CSBG Act.

The goal of CSBG programs is to achieve a measurable and potentially major impact on causes of poverty conditions. The poverty conditions include: 1) unemployment; 2) inadequate education; 3) poor use of available income; 4) inadequate housing; 5) emergency situations; and 6) malnutrition. Additionally, the CSBG legislation mandates specific strategies to achieve an impact on causes of poverty conditions, including:

- provide a range of services and activities designed to assist low income participants including the elderly poor,
- achieve greater participation in the affairs of the community,
- make more effective use of other programs,
- provide emergency services to counteract starvation and malnutrition,
- coordinate and establish linkages between governmental and other social services programs to effectively deliver services to low income individuals, and
- encourage the use of private sector resources to alleviate poverty.

Missouri's CSBG program accomplishes the mandated requirements through implementation of four strategies, including intake/assessment/referral (IAR); community resource development (CRD); parent aid (PA); and local initiative (LI). The CAAs' reimbursements are based upon units of service provided to
satisfy these four strategies.

Management/Oversight of CSBG Funds

DSS receives notice of federal grant awards from the Department of Health and Human Services. Since 50% of the funding allocations to the CAAs is based upon poverty population, the allocation percentages change every ten years based upon census data. Allocation charts are prepared the beginning of the Federal Fiscal Year (FFY) for a base amount. When DSS receives notification of the exact grant award later in the year, contract amendments are added to the CAA contracts to allocate the supplemental funds in accordance with the determined percentages.

Contracts between DSS and the CAAs are executed the beginning of each FFY. At that time, unit cost reimbursement rates are determined for the strategies of IAR, CRD, PA and LI. The CAAs submit billings monthly for units of service delivered based upon the unit cost reimbursement rates. The CSBG Unit reviews the billings to ensure the CAAs' requests for payment are in accordance with contract terms. After further processing by the Division of Budget and Finance, the checks are remitted to the CAAs.

For verification of services provided, CSBG Unit staff makes on-site monitoring visits to each of the CAAs on an annual basis. One-on-one consultation is provided to the CAAs as well.

The CAAs are required to have annual audits by independent external auditors. The audits are conducted in accordance with the Office of Management and Budget (OMB) Circular A-133. The primary focus of these audits is financial and compliance. DSS reviews the independent audits and provides follow up as necessary. Additionally, the State Auditor's Office conducts the Single Audit on an annual basis which covers federal financial assistance programs. In addition to audits conducted by independent firms and the State Auditor's Office, the Department of Health and Human Services conducts periodic on-site Program Implementation Assessments (PIAs) of the CSBG program in Missouri.
Authority, Purpose, and Scope

This follow-up audit was conducted under the authority of Section 23.190 RSMo, which requires that one year after the completion of each audit the Oversight Division shall review the operations of the agency audited to determine whether or not there has been substantial compliance with the recommendations contained in the audit report. This follow-up was conducted according to generally accepted government auditing standards. Audit testing was limited in the follow-up, and mainly consisted of conducting interviews and some limited sampling. With respect to items not tested, nothing came to our attention that would cause us to believe that the state is not in compliance with any applicable laws, regulations, contracts or grants.

The purpose of this report is to present our conclusions regarding the Department of Social Services' status in implementing recommendations from the December, 1995 performance audit. The report detailing that performance audit contained seven recommendations.

Implementation Status of Audit Recommendations

| FINDING #1: | The Department of Social Services (DSS) had not promulgated rules and regulations governing each Community Action Agency (CAA) pursuant to RSMo 660.376. |

RECOMMENDATION TO FINDING #1

DSS should, as required by State statute, promulgate rules and regulations relating to the CSBG Program. This could entail formally adopting the federal guidelines as the rules and regulations to follow as they relate to the CSBG program.
Status:

Implemented. Proposed rules were submitted March 28, 1997 by DSS to the Secretary of State for formal promulgation.

**FINDING #2:** The potential for a conflict of interest existed due to Department of Social Services' (DSS') monitoring staff working part-time in a community action agency (CAA) office.

**RECOMMENDATION TO FINDING #2**

DSS staff should explore the possibility of space in a DSS office while out of the Jefferson City domicile in order to prevent any perception of a conflict of interest, and at the same time, to realize any potential savings in expenses.

Status:

Implemented. DSS monitoring staff now work in the county DSS office.

**FINDING #3:** The unit cost reimbursement rates to the Community Action Agencies (CAAs) did not accurately reflect actual production costs.

**RECOMMENDATION TO FINDING #3**

DSS should implement a procedure for evaluation of the unit costs on a periodic basis, perhaps every two - three years, to ensure the reimbursement rates are representative of provider production costs.

Status:

Implemented. DSS now requires external auditors of CAAs to include a supplementary schedule detailing CSBG revenues and expenditures, including excess amounts transferred to other CSBG-related programs.
These schedules are evaluated individually to determine if a revision in reimbursement rates may be necessary.

**FINDING #4:** The Community Action Agency (CAA) external audits did not meet the state requirement for a performance audit, which was imposed by the Community Services Block Grant (CSBG) Program Plan.

**RECOMMENDATION TO FINDING #4**

- DSS should write specific audit procedures for the independent auditors, similar to the type of audit program used in the compliance supplement to OMB Circular A-133, that would satisfy the requirements imposed by the CSBG program plan.

- DSS should also require a separate report of the independent auditor indicating the State's required procedures were performed.

**Status:**

Not implemented, as DSS has removed all reference to performance audit requirements in the Program Plan. Specific performance audit procedures are not required. The only audit requirement imposed on CAAs other than the requirement to obtain an audit in accordance with OMB Circular A-133 is the requirement that external auditors include a supplementary schedule detailing CSBG revenues and expenditures.

**FINDING #5:** Documentation resulting from the review of external audits and adjustments to monthly billings was unclear.

**RECOMMENDATION TO FINDING #5**

- DSS should prepare standard forms with questions to ask or checklists to complete indicating every step completed during the course of
reviewing the external audits, and calculations made when reconciling numbers should be more clearly documented.

- When reviewing/approving the monthly billings, any adjustments should be briefly explained on the billing forms.

**Status:**

Implement. A standard audit review checklist has been developed and is used to document DSS review of external CAA audit reports. In addition a standard billing adjustment code was developed and is used by DSS to document adjustments by staff to agency billings.

**FINDING #6:** Administration of the Community Services Block Grant (CSBG) Program had inadequate segregation of duties.

**RECOMMENDATION TO FINDING #6**

Serious consideration should be given to filling the position in the CSBG Unit, which has been vacant since January 1994. For example, this position could concentrate more on the monitoring function and allow the Program Administrator to concentrate on other program concerns. Another possibility would be to divide the monitoring/oversight responsibilities for each of the CAAs between the Program Administrator and the newly filled position.

**Status:**

Implement. The vacant administrative position was filled by an experienced employee of the CSBG program staff, and her previous position was also filled. Professional administrative duties of the program are now divided between the Program Administrator and this administrative position.
FINDING #7: The Department of Social Services (DSS) did not provide adequate management oversight of the program.

RECOMMENDATION TO FINDING #7

The CSBG Program Administrator's immediate superiors should become more involved in the day-to-day operation of the unit, i.e., 1) contract negotiation process; 2) determination of unit cost reimbursement rates; 3) periodic meetings with the Program Administrator to keep informed about the program; 4) pre-approval/knowledge of Program Administrator's travel schedule; and 5) other activities/participation that would provide for a more objective means for evaluating the performance of the Program Administrator and any other future CSBG program employees under the superiors' direction.

Status:

Partially implemented. The CSBG Program Administrator indicates that meetings are conducted at least monthly with DSS management and that DSS management have attended CAA meetings. However, no changes have been made in response to specific recommendations regarding management involvement in contract negotiations, determination of unit cost reimbursement rates, and pre-approval of the Program Administrator's travel schedule.