

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

**SOUTH CAROLINA GENERALLY CLAIMED
COSTS ON BEHALF OF WATEREE
COMMUNITY ACTIONS, INC., THAT WERE
IN ACCORDANCE WITH THE GRANTS AND
APPLICABLE FEDERAL REGULATIONS,
BUT WATEREE MISMANAGED FEDERAL
FUNDS**

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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

The South Carolina Office of Economic Opportunity claimed costs that were allowable on behalf of Wateree Community Actions, Inc., for its Community Services Block Grant and Low-Income Home Energy Assistance Program. However, Wateree Community Actions, Inc., inappropriately loaned \$702,000 of grant funds from those programs to its Head Start program, carried forward unspent Low-Income Home Energy Assistance Program funds from year to year, and did not adequately follow up on audit findings or file audit reports on time.

WHY WE DID THIS REVIEW

The South Carolina Office of Economic Opportunity (State agency) notified the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), of numerous complaints that it had received about Wateree Community Actions, Inc. (Wateree), a community action agency (CAA) located in South Carolina. We conducted this review as a result of the State agency's referral.

The objective of our audit was to determine whether selected costs claimed by the State agency on behalf of Wateree for fiscal years (FYs) 2012 and 2013 for Community Services Block Grant (CSBG) and Low-Income Home Energy Assistance Program (LIHEAP) grants were allowable and properly managed under the terms of the grants and applicable Federal regulations.

BACKGROUND

Community Services Block Grant

Authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P. L. 105-285, the CSBG provides funds to alleviate the causes and conditions of poverty in communities. Within HHS, the Administration for Children and Families (ACF), Office of Community Services (OCS) administers the CSBG program. CSBGs fund a State-administered network of more than 1,000 local CAAs that create, coordinate, and deliver programs and services to low-income households.

Low-Income Home Energy Assistance Program

Authorized by the Low-Income Home Energy Assistance Act of 1981, P. L. 97-35, LIHEAP provides assistance to low-income households to meet their immediate home energy needs. Within HHS, the ACF, OCS administers LIHEAP. LIHEAP helps keep families safe and healthy through initiatives that assist families with energy costs such as weatherization and energy-related home repair needs.

South Carolina Office of Economic Opportunity

Created by the Community Economic Opportunity Act of 1983, the State agency administers the CSBG and LIHEAP. The State agency works in partnership with the South Carolina community

to administer and distribute funds to CAAs to eliminate causes of poverty, increase self-sufficiency of individuals and families and revitalize communities.

Wateree Community Actions, Inc.

Wateree is a private, multi-county, nonprofit, community-based CAA in South Carolina. Established in 1970, Wateree receives Federal funding to enhance the social and economic self-sufficiency of low-income people in Sumter, Kershaw, Clarendon, Lee, and Richland counties in South Carolina. In FYs 2012 and 2013, Wateree received from the State agency \$3,910,877 and \$4,043,119 respectively for LIHEAP and \$1,215,506 and \$1,157,221 respectively for CSBG.

WHAT WE FOUND

For FYs 2012 and 2013, the State agency claimed costs on behalf of Wateree for CSBG and LIHEAP grants that were allowable under the terms of the grants and applicable Federal regulations. However, Wateree improperly managed some Federal funds. Specifically, it:

- used \$696,397 of LIHEAP funds and \$5,931 of CSBG funds to loan money to its Head Start program;
- carried forward into the following year unused LIHEAP funds totaling \$1,250,278 and \$852,424 in FYs 2011 and 2012, respectively;
- did not resolve prior audit findings that were repeated year after year with the same management response; and
- did not submit to the State agency the required independent audit report on time for 2013.

These instances of improper management of Federal funds occurred because the State agency (1) was not aware of the regulation to notify HHS of unobligated LIHEAP funds and request that these funds be carried over into the next FY and (2) did not adequately monitor Wateree's management of Federal funds that it received from the State agency. As a result, Wateree put at risk both vital Federal funds and its ability to continue as a viable organization assisting low-income households in South Carolina.

WHAT WE RECOMMEND

We recommend that the State agency increase its monitoring of Wateree to ensure that Wateree properly manages Federal funds that it receives from the State agency by:

- requiring Wateree to return unspent LIHEAP funds at the end of each program year,

- ensuring that Wateree adequately addresses any audit findings by reviewing Wateree's audit reports annually and conducting follow up in a timely manner, and
- ensuring that Wateree meets its audit report deadlines.

WATEREE COMMUNITY ACTIONS, INC., COMMENTS AND OUR RESPONSE

In written comments on our draft report, Wateree described actions it has taken to address our findings, including providing additional staff training, working to ensure that it exhausts and does not carry forward LIHEAP funds, amending its financial policies and procedures, separating program funds, revising its supervisory approval process, and changing auditing firms. Wateree indicated that it is working with a certified public accountant to make certain that the OIG's finding that Wateree used \$696,397 of LIHEAP funds and \$5,931 of CSBG funds to loan money to its Head Start program is true and stated that it would provide supporting documents of 2012 and 2013 results.

The actions Wateree described are important steps towards preventing similar findings in the future. However, in the absence of documentation to the contrary, we continue to maintain that Wateree used LIHEAP and CSBG funds to loan money to its Head Start program.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations and described corrective actions that it has taken to address them. For example, the State agency said that it hired a certified internal auditor to track the receipt of all required single audits and to follow up on audit findings and agency responses. The State agency said that it also contracted with a certified public accounting firm to assist in monitoring subrecipients.

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INTRODUCTION

WHY WE DID THIS REVIEW

The South Carolina Office of Economic Opportunity (State agency) notified the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), of numerous complaints that it had received about Wateree Community Actions, Inc. (Wateree), a community action agency (CAA) located in South Carolina. We conducted this review as a result of the State agency's referral. Because the State agency is responsible for overseeing Community Services Block Grant (CSBG) and Low-Income Home Energy Assistance Program (LIHEAP) funds that Wateree receives, we focused our review on these two Federal grants.

OBJECTIVE

Our objective was to determine whether selected costs claimed by the State agency on behalf of Wateree for fiscal years (FYs)¹ 2012 and 2013 for CSBG and LIHEAP grants were allowable and properly managed under the terms of the grants and applicable Federal regulations.

BACKGROUND

Community Services Block Grant

Authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P. L. 105-285, the CSBG provides funds to alleviate the causes and conditions of poverty in communities. Within HHS, the Administration for Children and Families (ACF), Office of Community Services (OCS) administers the CSBG program. CSBGs fund a State-administered network of more than 1,000 local CAAs that create, coordinate, and deliver programs and services to low-income households. Grantees are required to provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

Low-Income Home Energy Assistance Program

Authorized by the Low-Income Home Energy Assistance Act of 1981, P. L. 97-35, LIHEAP provides assistance to low-income households to meet their immediate home energy needs. Within HHS, the ACF, OCS administers the LIHEAP. LIHEAP helps keep families safe and healthy through initiatives that assist families with energy costs such as weatherization and energy-related home repair needs. Also, LIHEAP helps families through programs that reduce the risk of health and safety problems that arise from unsafe heating and cooling practices.

Community Action Agencies

CAAs are non-profit private and public organizations established under the Economic Opportunity Act of 1964 to combat poverty in America. CAAs assist people in becoming self-sufficient. There are over 1,000 CAAs throughout the United States and its territories covering

¹ Wateree's fiscal year is from January 1 through December 31.

approximately 96 percent of the nation's counties. Each CAA is governed locally and each provides a different mix of programs and services. In South Carolina, the State agency administers funds to the CAAs.

South Carolina Office of Economic Opportunity

Created by the Community Economic Opportunity Act of 1983, the State agency administers the CSBG and LIHEAP. In Federal FYs 2012 and 2013, the State agency received \$36,270,134 and \$30,977,042 respectively for LIHEAP and \$10,359,538 and \$9,716,064 respectively for CSBG. The State agency works in partnership with the South Carolina community to administer and distribute funds to CAAs to eliminate causes of poverty, increase self-sufficiency of individuals and families, and revitalize communities.

Wateree Community Actions, Inc.

Wateree is a private, multi-county, nonprofit, community-based CAA in South Carolina. Established in July 1970 when the CAAs of Sumter and Kershaw counties merged, Wateree continued to grow as the CAAs from Clarendon, Lee, and Richland counties eventually joined the organization between 1970 and 1988.

Wateree receives Federal funding to enhance the social and economic self-sufficiency of low-income people in these South Carolina counties. Wateree assists these communities by conducting a range of custom-designed services and activities geared toward reducing poverty problems. These services include helping the poor and disadvantaged to secure and retain employment, attain adequate education, obtain and maintain adequate housing, and make better use of available income.

HOW WE CONDUCTED THIS REVIEW

Our audit covered FYs 2012 and 2013, during which Wateree received from the State agency \$3,910,877 and \$4,043,119, respectively, for LIHEAP and \$1,215,506 and \$1,157,221, respectively, for CSBG. We reviewed judgmental samples of 172 operational expenditures² for administration, CSBG, and LIHEAP totaling \$280,813 and 67 recipient aid expenditures for CSBG and LIHEAP totaling \$100,722.

Also, we reviewed certain salaries to ensure they were within the approved budget and reasonable; indirect cost allocations to CSBG and LIHEAP to ensure that the allocations were within budgeted amounts; the indirect cost rate to ensure it did not exceed the approved rate; and the findings in the single audit reports for 2009 through 2013 to ensure that Wateree had taken appropriate corrective actions.

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

² Operational expenditures included, for example, rent, consultants, utilities, insurance, office supplies, and audit fees. The selected expenditures did not include salaries, recipient aid, or allocated indirect costs, all of which were tested separately.

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.

Appendix A contains the details of our scope and methodology, and Appendix B contains Federal and State requirements.

FINDINGS

For FYs 2012 and 2013, the State agency claimed costs on behalf of Wateree for CSBG and LIHEAP grants that were allowable under the terms of the grants and applicable Federal regulations. However, Wateree improperly managed some Federal funds. Specifically, it:

- used \$696,397 of LIHEAP funds and \$5,931 of CSBG funds to loan money to its Head Start program;
- carried forward into the following year unused LIHEAP funds totaling \$1,250,278 and \$852,424 in FYs 2011 and 2012, respectively;
- did not resolve prior audit findings that were repeated year after year with the same management response; and
- did not submit to the State agency the required independent audit report on time for 2013.

These instances of improper management of Federal funds occurred because the State agency (1) was not aware of the regulation to notify HHS of unobligated LIHEAP funds and request that these funds be carried over into the next FY and (2) did not adequately monitor Wateree's management of Federal funds that it received from the State agency. As a result, Wateree put at risk both vital Federal funds and its ability to continue as a viable organization assisting low-income households of South Carolina.

WATEREE LOANED LIHEAP AND CSBG FUNDS TO ITS HEAD START PROGRAM

In their applications for LIHEAP funds, States must agree to use such funds only for allowable purposes (42 U.S.C. § 8624(b)(1)(D)).

Federal regulations (42 U.S.C. § 9916(a)(1)(B)) make 45 CFR part 74 applicable to CAAs. Specifically, 45 CFR § 74.27 provides that the allowability of costs for non-profit organizations will be determined in accordance with the provisions of 2 CFR part 230, "Cost Principles for Nonprofit Organizations." Furthermore, 2 CFR part 230, App. A, § A.4.b 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." Additionally, grant recipients must adequately safeguard all Federal assets and ensure that the assets are used solely for authorized purposes (45 CFR § 74.21 (b)(3)).

The contracts between the State agency and Wateree for CSBG, at section XII, and for LIHEAP, at section VII (M) specify that funds for those programs may not be used to loan money to other programs within Wateree without prior approval from the Federal awarding agency.

In 2013, Wateree loaned \$696,397 of LIHEAP funds and \$5,931 of CSBG funds to its Head Start program without ACF's approval. In March of 2014, at the State agency's demand, Wateree returned to the State agency the unspent LIHEAP funds for 2013 by obtaining a \$696,397 bank loan. In August 2014, Wateree borrowed an additional \$250,000 from LIHEAP funds to make a payment to the bank from which it obtained the \$696,397 loan. Wateree has since obtained a \$116,000 loan from the City of Columbia, South Carolina, as well as \$134,000 in donations, and has paid back the \$250,000 to the State agency.

Wateree loaned LIHEAP and CSBG funds to its Head Start program because its Head Start program expenses exceeded their allowable Head Start Federal funding for 2013. In addition, prior to 2013, the State agency had not required Wateree to return unspent funds that Wateree reported on its LIHEAP Financial Status Reports. This ability to keep unspent funds enabled Wateree access to funds to loan to its Head Start program.

Wateree could not recover from the Federal Government the LIHEAP and CSBG funds that it spent on its Head Start program. This inability to recover funds put Wateree at risk of being unable to continue as a financially viable organization.

WATEREE CARRIED UNUSED LIHEAP FUNDS OVER TO FUTURE YEARS

For unspent LIHEAP funds to be carried forward to a future year, a State must request that the Federal Government hold the unspent funds available for the following FY. The request must specify the reasons that the amount allotted to the State for a specific FY will not be used during the FY and describe the types of assistance to be provided with the funds held available for the following FY (42 U.S.C. § 8626(b)(2)(A)).

By August 1 of each year, each grantee must submit to HHS a report containing the following information:

- the amount of funds that the grantee requests to hold available for obligation in the next FY, not to exceed 10 percent of the funds payable to the grantee;
- the reasons that this amount to remain available will not be used in the FY for which it was initially allotted;
- a description of the types of assistance to be provided with the amount held available; and
- the amount of funds, if any, to be subject to reallocation (45 CFR § 96.81).

The State agency allowed Wateree to carry forward \$1,250,278 of unused 2011 LIHEAP funds into 2012 and \$852,424 of unused 2012 LIHEAP funds into 2013. However, the State agency did not submit the required report to HHS requesting to carry forward these funds. After

Wateree filed its 2013 LIHEAP Financial Status Report, the State agency required Wateree to return its unused 2013 LIHEAP funds totaling \$696,397.

The State agency said that it allowed Wateree to carry forward unspent LIHEAP funds because it was not aware, until January 2014,³ that it was required to return unspent funds to the Federal Government because the State agency had not formally requested to carry the funds forward.

The State agency put Federal funds at risk by allowing Wateree to carry forward funds from year to year and created an environment that allowed Wateree to loan LIHEAP funds to other programs.

THE STATE AGENCY DID NOT ENSURE THAT WATEREE TOOK APPROPRIATE CORRECTIVE ACTION IN RESPONSE TO AUDIT FINDINGS

Grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 (31 U.S.C. § 7501-7507) and revised Office of Management and Budget (OMB) Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations" (45 CFR § 96.31(a)). Furthermore, non-Federal entities that expend at least \$500,000 in Federal awards in a year must have a single audit conducted for that year (OMB Circular A-133, subpart B, section 200). The audits must be made by an independent auditor in accordance with generally accepted Government auditing standards covering financial audits (45 CFR § 96.31(a)).

Pass-through entities are required to "review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, ... pertaining to Federal awards provided to the subrecipient by the pass-through entity" (Title 31 U.S.C. § 7502 (f)(2)(C)).

State or local governments that provide Federal awards to a subgrantee expending \$300,000 or more in Federal awards in a FY are required to ensure that appropriate corrective action is taken within 6 months after receipt of the audit report in instances of noncompliance with Federal laws and regulations (45 CFR § 96.31(b)(3)).

Wateree's single audit reports have had repeat findings from year to year with the same management responses. For example, in the 2009, 2010, and 2012 audit reports, the auditors cited Wateree for a lack of timely and accurate financial statements. In each case, the management response was, "Management agrees. One of the major responsibilities of the new financial team headed by the chief financial officer is to prepare timely financial statements."

Another example of repeat findings with the same management responses is the finding related to the need for improvements in the year-end close-out procedures in the 2009 through 2012

³ The audit of the 2013 financial statements for the South Carolina Governor's Office contained a finding stating that the Governor's office was allowing subrecipients to hold onto funds for as long as 6 months and was providing funding for the new program year before ensuring that funds from the prior program year were expended. In following up on this finding, the State agency learned in January of 2014 of the rules for returning unspent LIHEAP funds.

audit reports. Specifically, all four reports cited the need for improvements in the recording of grant receivables and in the review of recording of in-kind revenues and in-kind expenditures. In comments on each of the four reports, the management response was, "Management agrees. New financial team headed by the chief financial officer will implement new closeout policy and procedures effective for"

Wateree has had repeat audit findings because the State agency has not properly monitored Wateree to ensure that it is taking substantive corrective action on audit findings in the single audit reports.

Because the State agency has not ensured that Wateree followed up on its audit findings, there is an increased risk that Wateree will mispend or mismanage Federal funds and create an unstable financial situation for itself.

WATEREE DID NOT SUBMIT ITS SINGLE AUDIT REPORTS ON TIME

Grant recipients that are non-Federal entities are required to submit a single audit report by the earlier of (1) 30 days after receipt of the auditor's report or (2) 9 months after the end of the period audited (Title 31 U.S.C. § 7502 (h)(1) and (2)).

For the year ended December 31, 2013, Wateree submitted its audit report over 10 months late.⁴ The report was due by September 30, 2014. Soon after the due date, the State agency demanded that Wateree submit the audit report. Instead, Wateree requested a 1-month extension to October 31, 2014. By October 31, 2014, the State agency had begun communicating with OIG its concerns about Wateree. In August 2015, Wateree finally submitted the audit report.

Wateree experienced key financial personnel turnover, including the firing of the chief financial officer in 2013 and the resignation of the finance manager in early 2014, which contributed to Wateree's inability to have its accounting records ready to be audited on time. As recently as December 2014, Wateree continued to make general ledger entries for the 2013 year.

Without an audit report, the State agency did not have adequate information to evaluate Wateree's ability to continue to administer grant funds in accordance with the terms of the grant and applicable Federal regulations.

⁴ Wateree also submitted its audit reports for 2009 and 2010 after the due dates of September 30, 2010, and September 30, 2011, respectively.

RECOMMENDATIONS

We recommend that the State agency increase its monitoring of Wateree to ensure that Wateree properly manages Federal funds that it receives from the State agency by:

- requiring Wateree to return unspent LIHEAP funds at the end of each program year,
- ensuring that Wateree adequately addresses any audit findings by reviewing Wateree's audit reports annually and conducting follow up in a timely manner, and
- ensuring that Wateree meets its audit report deadlines.

OTHER MATTER

On the basis of our analysis of Wateree's financial statements for FY 2013, we are concerned that Wateree will not be able to continue as a financially viable organization. Wateree has experienced a decrease in unrestricted net assets from \$890,919 in 2008 to \$(2,077,348)⁵ in 2013, a decrease of over 300 percent. The most significant decrease in unrestricted net assets was \$1,916,569 in 2013. The trend of decreasing unrestricted net assets is an indication that Wateree is accumulating debt to cover its operational expenses.

The 2013 audit report contains a section in which the auditors expressed concern about Wateree's ability to pay certain liabilities including:

- a bank loan for \$696,397 due in July 2014 (this is the previously mentioned loan that was obtained in March 2014 to restore to the State agency the borrowed LIHEAP funds),
- a note payable to HHS for \$132,110 (by year end the balance was \$132,550) related to Wateree's Head Start program (see footnote 5),
- a bank promissory note for \$180,563 maturing in 2014,
- a loan of \$135,000 from Wateree's Health and Welfare Plan obtained by the former plan administrator, and
- an amount of \$250,000 due to others.⁶

⁵ This figure reflects a debt of \$132,550 that Wateree owed to HHS on December 31, 2013, and that the independent auditor inappropriately omitted from the audited financial statements. On December 19, 2013, the debt was \$132,110. However, with accrued interest, it grew to \$132,550 as of December 31, 2013. The debt resulted from Wateree drawing down amounts in excess of its authorized budget for its Head Start program. The independent auditors disclosed in a "Subsequent Events" note with the audited financial statements that in September 2014, Wateree signed a long term installment note for the balance at the time, including accrued interest, of \$141,455.

⁶ This amount due to others resulted from Wateree borrowing \$250,000 of LIHEAP funds in 2014. However, Wateree used a loan for \$116,000 from the City of Columbia and gifts totaling \$134,000 to restore the LIHEAP funds. A \$116,000 debt remains related to this \$250,000.

We share the independent auditors' concerns regarding Wateree's ability to pay these debts. As a not-for-profit organization, Wateree does not have an income stream from which to pay back these debts.

WATEREE COMMUNITY ACTIONS, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

WATEREE COMMUNITY ACTIONS, INC., COMMENTS

In written comments on our draft report, Wateree described actions it has taken to address our findings, including providing additional staff training, working to ensure that it exhausts and does not carry forward LIHEAP funds, amending its financial policies and procedures, separating program funds, revising its supervisory approval process, and changing auditing firms. Wateree indicated that it is working with a certified public accountant to make certain that the OIG's finding that Wateree used \$696,397 of LIHEAP funds and \$5,931 of CSBG funds to loan money to its Head Start program is true and stated that it would provide supporting documents of 2012 and 2013 results.

Wateree's comments are included in their entirety as Appendix C.

OFFICE OF INSPECTOR GENERAL RESPONSE

The actions Wateree described are important steps towards preventing similar findings in the future. However, in the absence of documentation to the contrary, we continue to maintain that Wateree used LIHEAP and CSBG funds to loan money to its Head Start program.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations and described corrective actions that it has taken to address them. For example, the State agency said that it hired a certified internal auditor to track the receipt of all required single audits and to follow up on audit findings and agency responses. The State agency said that it also contracted with a certified public accounting firm to assist in monitoring subrecipients.

The State agency's comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered FYs 2012 and 2013, during which Wateree received from the State agency \$3,910,877 and \$4,043,119, respectively, for LIHEAP and \$1,215,506 and \$1,157,221, respectively, for CSBG. In planning and performing our audit, we limited our review of the State agency's and Wateree's internal controls to those controls related to ensuring that only allowable costs related to the CSBG and LIHEAP grants were claimed.

We conducted fieldwork at the offices of the State agency and Wateree in Columbia, South Carolina, from July 2014 through August 2015.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed the State plans for 2012 and 2013 for CSBG and LIHEAP as well as the State agency's LIHEAP Administrative Guide for 2012 and 2013;
- reviewed the contracts between Wateree and the State agency for CSBG and LIHEAP for 2012 and 2013;
- reviewed Wateree's single audit reports for the years 2009 through 2013;
- discussed Wateree's financial condition with officials at the State agency, Wateree's independent auditor, and Wateree's chief financial officer;
- reviewed Wateree's FYs 2012 and 2013 summary trial balances for the administrative, LIHEAP, and CSBG areas;
- reviewed a judgmental sample of 172 operational expenditures totaling \$280,813 for administration, LIHEAP, and CSBG, using such risk factors as account descriptions, dollar amounts, transaction descriptions, and vendors;
- reviewed a judgmental sample of 67 recipient aid expenditures totaling \$100,722 from LIHEAP and CSBG and evaluated them for compliance with the LIHEAP and CSBG contracts, selecting payments from each quarter and using such risk factors as dollar amounts and vendors;
- reviewed the payroll reports for FYs 2012 and 2013 to determine whether compensation for the six highest paid employees was reasonable;

- reviewed a judgmental sample of 4 payroll journal entries, two from FY 2012 and two from FY 2013, to ensure that they were properly posted to the general ledger;
- selected judgmental samples of 5 employees that were assigned to either CSBG or LIHEAP from each of 4 payrolls (2 from FY 2012 and 2 from FY 2013) to determine whether the salaries were in accordance with the approved budget documents;
- reviewed all employees terminated during the audit period to verify that the terminated employees were not being paid after termination;
- reviewed indirect cost allocations to CSBG and LIHEAP to ensure that they were within approved budgeted amounts and that the indirect cost rate did not exceed the approved rate; and
- discussed the results of our audit with officials at Wateree and the State agency.

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.

APPENDIX B: FEDERAL AND STATE REQUIREMENTS

UNITED STATES CODE

31 U.S.C. § 7501-7507 contain the single audit requirements of the Single Audit Act Amendments of 1996.

31 U.S.C. § 7502(f)(2)(C) requires pass-through entities to “review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, ... pertaining to Federal awards provided to the subrecipient by the pass-through entity.”

31 U.S.C. § 7502(h)(1) and (2) requires grant recipients that are non-Federal entities to submit a single audit report by the earlier of (1) 30 days after receipt of the auditor’s report or (2) 9 months after the end of the period audited.

42 U.S.C. § 8624(b)(1)(D) requires States to agree to not use LIHEAP funds for unallowable purposes.

42 U.S.C. § 8626(b)(2)(A) regarding carryover of LIHEAP funds states:

Any State may request that an amount allotted to such State for a fiscal year be held available for such State for the following fiscal year. Such request shall include a statement of the reasons that the amount allotted to such State for a fiscal year will not be used by such State during such fiscal year and a description of the types of assistance to be provided with the amount held available for the following fiscal year. Any amount so held available for the following fiscal year shall not be taken into account in computing the allotment of or the amount payable to such State for such fiscal year under this subchapter.

42 U.S.C. § 9916(a)(1)(B) says that States that receive funding under the CSBG shall “ensure that cost and accounting standards of the OMB apply to a recipient of the funds under this subtitle.” This regulation makes 45 CFR part 74 applicable to CAAs.

CODE OF FEDERAL REGULATIONS

2 CFR part 230, App. A, § A.4.b states, “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.”

45 CFR § 74.21 (b)(3) requires grant recipients to adequately safeguard all funds received under Federal awards and ensure that they are used solely for authorized purposes.

45 CFR § 74.27 states, “The allowability of costs incurred by nonprofit organizations ... is determined in accordance with the provisions of [2 CFR part 230], ‘Cost Principals for Nonprofit Organizations’”

45 CFR § 96.31(a) states:

Grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507) and revised OMB Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations." The audits shall be made by an independent auditor in accordance with generally accepted Government auditing standards covering financial audits.

45 CFR § 96.31(b)(3) requires State or local governments that provide Federal awards to a subgrantee expending \$300,000 or more in Federal awards in an FY to ensure that appropriate corrective action is taken within 6 months after receipt of the audit report in instances of noncompliance with Federal laws and regulations.

45 CFR § 96.81 regarding carryover of LIHEAP funds states:

Each grantee must submit a report to the Department by August 1 of each year, containing the information in paragraphs (b)(1) through (b)(4) of this section. The Department shall make no payment to a grantee for a fiscal year unless the grantee has complied with this paragraph with respect to the prior fiscal year.

- (1) The amount of funds that the grantee requests to hold available for obligation in the next (following) fiscal year, not to exceed 10 percent of the funds payable to the grantee;
- (2) A statement of the reasons that this amount to remain available will not be used in the fiscal year for which it was allotted;
- (3) A description of the types of assistance to be provided with the amount held available; and
- (4) The amount of funds, if any, to be subject to reallocation.

OMB CIRCULARS

OMB Circular A-133, subpart B, section 200 requires non-Federal entities that expend at least \$500,000 in Federal awards in a year to have a single audit conducted for that year.

COMMUNITY SERVICES BLOCK GRANT AND LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM CONTRACTS

The contracts between the State agency and Wateree for CSBG, at section XII, and for LIHEAP, at section VII (M), specify that funds for those programs may not be used to loan money to other programs within the agency without prior approval from the Federal awarding agency.

APPENDIX C: WATEREE COMMUNITY ACTIONS, INC.,
COMMENTS



Waterree Community Actions, Inc.

HEADQUARTERS: 2712 Middleburg Drive, Suite 207 • Post Office Box 8328 • Columbia, SC 29202
Phone: 803.807.9811 • Fax: 803.807.9810 • Email: wcaadmin@wcai.org • Website: www.wcai.org
Annette Tucker, Interim Executive Director Attorney Donald Gist, Board Chairman

January 25, 2016

Mr. Mark Wimple
Audit Manager
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

Dear Mr. Wimple,

This letter provides a response to the letter dated December 10, 2015 regarding the results of the (OIG), draft report entitled *South Carolina Generally Claimed Costs on Behalf of Waterree Community Actions, Inc., That Were in Accordance with the Grants and Applicable Federal Regulations, but Waterree Mismanaged Federal Funds*. In December 2014 Waterree had a tremendous change in management, the transition was still taking place during the ending part of your visit. Since the visit, we have received several T/TA Training, OMB Circular Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, to equip us in the process of putting this agency back on the right track. I would like to share a few implementations to address and eliminate future concerns to the following findings:

Finding:

- Used \$696,397 of LIHEAP funds and \$5,931 of CSBG funds to loan money to its Head Start program,

Response: Board of Directors, CEO, and Fiscal Manager are working with a Certified Public Accountant, [REDACTED] with [REDACTED] to make certain the findings are true. We will provide supporting documents and a statement of the completion of 2012 and 2013 results.

Finding:

- Carried forward into the following year unused LIHEAP funds totaling \$1,250,278 and \$852,424 in FYs 2011 and 2012 respectively,

Response: CEO, Program Director and staff are working to assure that all funds are expalted for each FY, thus providing zero carry forward dollars.

Office of Inspector General Note - The deleted text has been redacted because it is personally identifiable information.

Finding:

- Did not resolve prior audit findings that were repeated year after year with the same management response, and

Response: CEO, Fiscal Manager, and Board of Directors have amended the organizations Financial Policy and Procedures, separated the program funds, implemented additional training for finance staff, program directors, CEO and Board of Directors. We have changed auditing firms, and the supervisory approval process to ensure prior audit findings are not repeated in 2014, 2015 and so on.

Finding:

- Did not submit to the State agency the required independent audit report in time for 2013.

Response: We have changed auditing firms, and again a revised supervisory approval process to ensure audit, FSR, FFR and all other required reports are submitted in a timely manner.

In closing, Wateree Community Action has taken an overall corrective action plan for all of its programs. These programs will be continuously monitored and assessed for effectiveness in reporting, evaluating, resolving and preventing recurrence of identifying problem finding. The partnership with BLN will continue until all changes are implemented and audit findings resolved and we will continue to work very closely with the Office of Economic Administration, and The Administration for Children and Families (ACF) a division of the Department of Health & Human Services.

Respectfully,

Annette Tucker

Annette Tucker

Interim Chief Executive Director

Wateree Community Actions, Inc.

cc: Attorney Donald Gist, Board Chairman
Business File

APPENDIX D: STATE AGENCY COMMENTS



Nikki R. Haley, *Governor*
Marcia S. Adams, *Executive Director*

OFFICE of ECONOMIC OPPORTUNITY
James Miller, Director
1205 Pendleton Street, Suite 349
Columbia, SC 29201
803.734.0662
803.734.0356 fax

March 7, 2016

Mr. Mark Wimple
Audit Manager
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

Dear Mr. Wimple,

This letter is in response to your correspondence dated February 11, 2016 regarding the results of the draft report entitled *South Carolina Generally Claimed Costs on Behalf of Wateree Community Actions, Inc., that were in Accordance with the Grants and Applicable Federal Regulations, but Wateree Mismanaged Federal Funds*. The South Carolina Office of Economic Opportunity (OEO) was appointed a new Director on April 1, 2013. The first action item was to handle reports of mismanagement at Wateree Community Actions, Inc. (WCAI). In May 2013, OEO contacted the United States Department of Health and Human Services (USHHS) for guidance on how to approach multiple reports of wide spread mismanagement at WCAI. OEO then met with officials from the USHHS Inspector General's office to discuss what we knew and observed through prior monitoring. The draft report we are addressing is the result of the culmination of several years' work and cooperation between the USHHS OIG and OEO.

Since that initial meeting with the USHHS OIG, OEO has retained additional staff to assist in more robust monitoring of all sub-recipients of federal grants administered through this office. In March 2014, OEO hired a Certified Internal Auditor, whose primary responsibility is to conduct desk audits of all sub-recipient Single Audits. In November 2014, OEO hired legal counsel to assist primarily in ensuring that all grant agreements and state plans properly adhere to all federal laws and policies. In July 2015, OEO hired a Certified Public Accountant to oversee all aspects of the office's fiscal policies and procedures. Additionally, OEO has contracted with an independent Certified Public Accounting firm since 2014 to assist with required federal monitoring of sub-recipients. With the addition of the appropriate staff, OEO is confident that the federal requirements of the grants administered by this office are adequately followed. OEO concurs with the following recommendations:

Recommendation

- OEO require Wateree to return unspent LIHEAP funds at the end of each program year

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1200 Senate Street, Suite 460 Columbia, SC 29201
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Response: OEO was made aware of the requirement through our single audit in 2014 and immediately began the process of requesting unspent LIHEAP funds be returned to OEO. OEO currently monitors the spending of each sub-recipient and has required the unspent funds be returned in program years 2014 and 2015.

- Ensuring that Wateree adequately addresses any audit findings by reviewing Wateree's audit reports annually and conducting follow-up in a timely manner

Response: OEO has hired a Certified Internal Auditor whose primary responsibility is to track receipt of all required single audits from sub-recipients and perform desk audits to include follow-up on audit findings and agency response. These desk audits will include site visits as deemed necessary according to the nature of the audit finding. As it relates specifically to Wateree, we have been in constant contact with Wateree and have had our staff and the CPA firm we have contracted with perform constant monitoring as Wateree has spent the better part of 2 years "cleaning up the books".

- Ensuring that Wateree meets its audit report deadlines

Response: OEO has hired a Certified Internal Auditor whose primary responsibility is to track receipt of all required single audits from sub-recipients, follow-up promptly on late submissions and perform desk audits to include follow-up on audit findings and agency response.

OEO continues to work with WCAI as they attempt to correct the deficiencies identified by both the USHHS OIG and OEO. WCAI has replaced the management team, secured additional nonfederal funds, replaced their external auditor, brought in additional consultants and fully cooperated with OEO since the issues were brought to light. OEO has had staff on-site at least quarterly since December 2014 to assist in correcting deficiencies as well as attempting to ensure that these deficiencies are not repeated.

Regards,


James Miller
Director
South Carolina Office of Economic Opportunity

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