

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**WATEREE COMMUNITY ACTIONS, INC.,  
MADE IMPROVEMENTS BUT STILL  
REQUIRES MONITORING**

*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).*



**Amy J. Frontz  
Deputy Inspector General  
for Audit Services**

**February 2020  
A-04-19-08069**

# *Office of Inspector General*

<https://oig.hhs.gov>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **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.

## Report in Brief

Date: February 2020

Report No. A-04-19-08069

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Audit

The U.S. Department of Health and Human Services (HHS) provides funding through numerous programs that support and provide assistance to low-income families. Our prior audit (A-04-14-04026) of Wateree Community Actions, Inc. (Wateree), for fiscal years (FYs) 2012 and 2013, found that Wateree improperly managed some Federal funds related to HHS programs. 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.

Our objectives were to (1) determine whether Wateree allocated and claimed costs in accordance with Federal requirements and (2) follow up on the findings identified in our prior OIG audit.

### How OIG Did This Audit

We audited HHS grant funding and expenditures during FYs 2016 and 2017 (audit period). Our audit covered three HHS program grants for which Wateree claimed \$27.4 million in costs during the audit period. We also followed up on findings identified in OIG's prior audit report, as well as in Wateree's 2015 Single Audit, and we audited Wateree's ongoing actions to address these issues after 2017.

## Wateree Community Actions, Inc., Made Improvements but Still Requires Monitoring

### What OIG Found

Wateree continued to experience financial management problems related to its Federal programs because it misallocated funds or claimed duplicate Head Start program costs in violation of Federal requirements, did not meet its non-Federal match requirement for Head Start, and continued to file Federal and non-Federal reports inaccurately or late. However, Wateree resolved one prior OIG audit finding and improved its financial condition.

These deficiencies occurred because Wateree did not have adequate cash management or other controls. As a result, Wateree mismanaged \$354,597 in Federal funds, is subject to a Federal funds disallowance of \$252,591, and may incur other administrative actions from the Administration for Children and Families (ACF).

Since the end of our audit period, Wateree has taken steps to improve its cash management system. Specifically, Wateree has instituted a new accounting system, which it believes will provide better accountability. After the initiation of our audit and our discussion of the \$354,597 of unallowable Head Start costs with both ACF and Wateree officials, Wateree repaid the unallowable amount.

### What OIG Recommends and Wateree Comments

We recommend that Wateree monitor the non-Federal match it is receiving throughout the budget year and, if needed, either request a waiver from ACF immediately upon determining that it cannot meet its match requirements or adjust its Federal funds grant expenditures accordingly and ensure adequate controls are in place to prevent invoicing both Head Start and the U.S. Department of Agriculture's Child Nutrition programs for the same expenses. We also made two procedural recommendations.

In written comments on our draft report, Wateree described actions taken or processes implemented to address our recommendations. Wateree added that it had developed a corrective action plan to prevent recurrence of the financial management problems identified in this audit.

## TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Audit.....	1
Objective.....	1
Background.....	1
Community Services Block Grant Program.....	1
Low Income Home Energy Assistance Program.....	1
Head Start Program.....	2
Wateree Community Actions, Inc.....	2
Prior OIG Audit Findings.....	2
How We Conducted This Audit.....	3
FINDINGS.....	3
Wateree Did Not Allocate or Claim Costs in Accordance With Federal Requirements.....	4
Wateree Did Not Meet Its Non-Federal Match Requirement for Head Start.....	5
Wateree Did Not File Federal Reports Accurately or on Time.....	6
Wateree Did Not File Its Federal Financial Reports Accurately or on Time.....	6
Wateree Did Not File Single Audits on Time.....	7
Wateree Resolved One Prior OIG Finding and Improved Its Financial Condition.....	8
Prior OIG Audit.....	8
Wateree Did Not Improperly Carry Over Unused LIHEAP Funds.....	9
Wateree Improved Its Financial Condition.....	10
CONCLUSION.....	10
RECOMMENDATIONS.....	10
WATEREE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE.....	11
Wateree Comments.....	11
Office of Inspector General Response.....	11

APPENDICES

A: Audit Scope and Methodology ..... 13

B: Wateree’s HHS Grant Expenditures for 2016 and 2017..... 15

C: Wateree Comments..... 16

## INTRODUCTION

### WHY WE DID THIS AUDIT

The U.S. Department of Health and Human Services (HHS) provides funding through numerous programs that support and provide assistance to low-income families. Some of these programs are the Community Services Block Grant program (CSBG), the Low Income Home Energy Assistance Program (LIHEAP), and the Head Start program. Our prior audit of Wateree Community Actions, Inc. (Wateree), for fiscal years (FYs) 2012 and 2013,<sup>1</sup> found that Wateree misallocated some Federal funds and that it may not be able to continue as a financially viable organization.<sup>2</sup>

### OBJECTIVE

Our objectives were to (1) determine whether Wateree allocated and claimed costs in accordance with Federal requirements and (2) follow up on the findings identified in our prior Office of Inspector General (OIG) audit.

### BACKGROUND

#### Community Services Block Grant Program

Authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. No. 105-285, as amended, the CSBG program 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 Community Action Agencies (CAAs) that create, coordinate, and deliver programs and services to low-income households.

#### Low Income Home Energy Assistance Program

Authorized by Title XXVI of the Omnibus Budget Reconciliation Act of 1981, P.L. No. 97-35, as amended, 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.

---

<sup>1</sup> Wateree's FY is the same as the calendar year.

<sup>2</sup> *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*, [A-04-14-04026](#), issued March 2016.

## **Head Start Program**

Authorized by the Improving Head Start for School Readiness Act of 2007, P.L. No. 110-134, as amended, Head Start programs promote school readiness of children from low-income families aged birth to 5 years by enhancing their cognitive, social, and emotional development. Within HHS, the ACF Office of Head Start administers the Head Start program. The program provides funding to grantees that deliver services to children and families in core areas of early learning, health, and family well-being.

## **Wateree Community Actions, Inc.**

Wateree is a private, multicounty, 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 FYs 2016 and 2017, Wateree reported grant expenditures of \$1.2 million and \$1.9 million for CSBG, \$4 million and \$3.7 million for LIHEAP, and \$8.2 million and \$8.4 million for Head Start, respectively.

## **Prior OIG Audit Findings**

For FYs 2012 and 2013, the South Carolina Office of Economic Opportunity (OEO) 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:

- mismanaged \$696,397 of LIHEAP funds and \$5,931 of CSBG funds by loaning these funds to its Head Start program;
- did not resolve prior Single Audit findings that were repeated year after year, although Wateree's management provided the same responses repeatedly acknowledging its responsibilities and stating that it would correct the findings;
- did not submit its Single Audit report on time for 2013; and
- improperly carried over into the following year unused LIHEAP funds totaling \$1,250,278 and \$852,424 in FYs 2011 and 2012, respectively.

Additionally, our prior audit contained an "Other Matters" section in which we raised concerns about Wateree's ability to continue as a financially viable organization because of its decreasing unrestricted net assets.

## HOW WE CONDUCTED THIS AUDIT

We audited Wateree's FYs 2016 and 2017 (audit period) HHS grant funding that it received from the CSBG, LIHEAP, and the Head Start program and related expenditures. Our audit covered all three HHS program grants that Wateree received, for which Wateree claimed \$27.4 million in costs during the audit period. Appendix B includes a detailed listing of Wateree's HHS grant expenditures during the audit period. We also followed up on findings identified in OIG's prior audit report as well as in Wateree's 2015 Single Audit, and we reviewed Wateree's ongoing actions to address these issues.

To determine whether Wateree allocated and claimed costs in accordance with Federal requirements, we obtained a list of expenditures for the three grants in our audit. We then conducted a detailed review of 56 judgmentally selected transactions from this list, totaling over \$2.8 million. The transactions we selected were intended to cover a mix of expenditure types such as salaries, fringe benefits, indirect costs, non-Federal match costs, Payment Management System (PMS) transactions, CSBG General Emergency Assistance payments, and LIHEAP Direct Assistance payments.

To determine whether Wateree addressed our prior audit findings, we (1) reviewed Single Audit findings for FYs 2015, 2016, and 2017 and selected underlying workpapers that we obtained from the independent auditor; (2) obtained Wateree's filing dates for its Single Audits; (3) discussed Wateree's use of LIHEAP funds with its management and with OEO; and (4) analyzed Wateree's financial statements.

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 A contains the details of our audit scope and methodology.

## FINDINGS

Wateree continued to experience financial management problems related to its Federal programs<sup>3</sup> because it misallocated funds or claimed duplicate Head Start program costs in violation of Federal requirements, did not meet its non-Federal match requirement for Head Start, and continued to file Federal and non-Federal reports inaccurately or late.<sup>4</sup> However, Wateree resolved one prior OIG audit finding and improved its financial condition.

---

<sup>3</sup> Our prior audit found that Wateree used LIHEAP and CSBG funds for its Head Start program.

<sup>4</sup> Our prior audit found that Wateree did not file its Single Audit reports on time.

These deficiencies occurred because Wateree did not have adequate cash management or other controls. As a result, Wateree mismanaged \$354,597 in Federal funds, is subject to a Federal funds disallowance of \$252,591, and may incur other administrative actions from ACF.

Since the end of our audit period, Wateree has taken steps to improve its cash management system. Specifically, Wateree has instituted a new accounting system, which it believes will provide better accountability.

#### **WATEREE DID NOT ALLOCATE OR CLAIM COSTS IN ACCORDANCE WITH FEDERAL REQUIREMENTS**

Federal regulations require Head Start programs to use funds from the U.S. Department of Agriculture's (USDA) Food, Nutrition, and Consumer Services Child Nutrition programs as the primary source of payment for meal services. Head Start funds may be used to cover those allowable costs not covered by USDA (45 CFR § 1302.44(b)).

Wateree received \$354,597 in Head Start reimbursement for meal service costs incurred in grant year 2015 for which it was also reimbursed by USDA. USDA usually provided Wateree a monthly stipend to cover food costs for Head Start enrollees. However, Wateree did not receive the stipend from USDA for January, February, or March of 2015, even though the nutrition service costs were allowable under USDA's child nutrition programs. As a result, Wateree sent food invoices to ACF covering the first 3 months of FY 2015 and continued to bill ACF throughout FY 2015. However, in April 2015, USDA resumed paying monthly stipends to Wateree, meaning that all subsequent food costs allocated to Wateree's Head Start program were improper. Wateree officials told us that they did not notice that Wateree had received the funds from both Head Start and USDA until its hired consultant identified the unallowable reimbursements in 2016. Wateree's management agreed with us that they should return the funds to ACF and indicated that they attempted to return them but had not established a process with ACF for doing so. After the initiation of our audit and our discussion of the \$354,597 of unallowable Head Start costs with both ACF and Wateree officials, Wateree repaid the unallowable amount.

Wateree claimed \$354,597 of unallowable Head Start costs because its cash management controls did not detect that USDA had already reimbursed its nutrition service costs from April through December 2015 or prevent the same food expenses from being invoiced to the Head Start program and the USDA child nutrition programs. As a result, Wateree is subject to a disallowance of \$354,597 in Head Start grant funds for unallowable costs. Our prior audit identified a similar issue in which Wateree misallocated LIHEAP and CSBG funds when it loaned money from these grants to its Head Start program in violation of Federal regulations. Although the exact type of misallocation was not repeated, both our prior and current audit findings indicate that Wateree's financial management controls continued to not be adequate to properly manage Federal grant funds.

Since our prior audit, Wateree has taken steps to improve its cash management system. Specifically, Wateree implemented a new accounting system in January 2018 that it believes will provide better accountability. Although the new accounting system was not active during the period of our current audit (FYs 2016 and 2017), if the system operates as designed, it should improve Wateree's ability to manage Federal funds. Specifically, Wateree said that the new system should be able to produce reliable reports for management oversight and that the new system also includes security controls to prevent inadvertent or unauthorized changes to previously recorded transactions, along with individual user accountability.

### **WATEREE DID NOT MEET ITS NON-FEDERAL MATCH REQUIREMENT FOR HEAD START**

A non-Federal match is a statutory requirement of the Head Start program, unless a waiver is granted (Head Start Act § 640(b)). As implemented in 45 CFR § 1303.4, Federal assistance to a grantee may not exceed 80 percent of the approved total program costs. A grantee must contribute 20 percent as non-Federal match each budget period. The responsible HHS official may approve a waiver of all or a portion of the non-Federal match requirement on the basis of the grantee's written application submitted for the budget period and any supporting evidence required. The responsible HHS official will decide whether to grant a waiver based on a number of factors specified in the Act and whether the grantee has made a reasonable effort to comply with the non-Federal match requirement.

Program guidance, found in ACF's Program Instruction entitled "Non-Federal Share Issues" (ACF-PI-HS-12-02) to all Head Start grantees, dated February 10, 2012, informs the grantees that failure to meet non-Federal share requirements can result in serious financial consequences (disallowance of non-Federal share). This guidance also encourages grantees to immediately submit a request for a waiver if match requirements cannot be met because of circumstances arising during the budget year. Using an example, the guidance demonstrates how a disallowance would be calculated. (See Table 1.)

Wateree expended \$7,002,837 in Federal funds on its Head Start program in FY 2017, requiring it to provide \$1,750,709 in non-Federal match. However, Wateree only provided \$1,434,971 in allowable non-Federal match. As shown in Table 1, had Wateree met its statutorily required non-Federal match for FY 2017, its total Head Start grant budget would have been \$8,753,546, which would have consisted of \$7,002,837 in Federal funding and \$1,750,709 in non-Federal match. Because Wateree's actual Head Start budget for FY 2017 was only \$8,437,808, which consisted of \$7,002,837 in Federal funding and \$1,434,971 of allowable non-Federal match, it did not meet its required non-Federal match for FY 2017. Wateree requested a non-Federal match waiver for FY 2017 in a letter dated April 13, 2018 (after the budget period) but was unable to provide any documentation showing that ACF granted the waiver.

Wateree did not meet its non-Federal match requirement because it was required to lower the fair market rental value of the donated space at one of its Head Start centers to match the current rental value as determined by an independent appraisal conducted in 2017. Additionally, Wateree did not effectively monitor and adjust for the amount of non-Federal

match it was receiving throughout the year. As a result, Wateree is subject to a \$252,591 disallowance of Federal funds (Table 1).

**Table 1: Potential Disallowance of Federal Funds for FY 2017**

Federal share expended	\$7,002,837
Plus allowable non-Federal match	1,434,971
<b>Actual Grant Amount</b>	<b>8,437,808</b>
Recalculated maximum Federal share (80% of actual grant amount)	6,750,246
<b>Disallowance (Federal funds expended less recalculated maximum Federal share)</b>	<b>\$252,591</b>

**WATEREE DID NOT FILE FEDERAL REPORTS ACCURATELY OR ON TIME**

Wateree filed its Federal Financial Reports, Standard Form 425 (SF-425), inaccurately or late during the audit period. It also filed its Single Audits late. (See Table 2.)

**Table 2: Federal Reports**

<b>FY</b>	<b>Report</b>	<b>Due Date</b>	<b>Date Filed</b>
2016	SF-425	April 30, 2017	February 9, 2018
2017	SF-425	April 30, 2018	March 31, 2018
2016	Single Audit	September 30, 2017	June 29, 2018
2017	Single Audit	September 30, 2018	December 3, 2018

Wateree filed these reports inaccurately or late because of several factors including employee turnover. As a result, Wateree is subject to a variety of administrative actions for noncompliance, such as temporarily withholding cash payments and wholly or partly suspending or terminating the Federal award.

**Wateree Did Not File Its Federal Financial Reports Accurately or on Time**

ACF’s Program Instruction (ACF-PI-HS-16-01) to all Head Start grantees, dated January 5, 2016, established a submission due date for a final SF-425 as April 30 of the following year for grantees with a grant budget period beginning on January 1.

Wateree filed its 2016 final SF-425 more than 9 months late. Its grant budget period began on January 1, making the due date for its final SF-425 for FY 2016 April 30, 2017. However, Wateree did not file its final SF-425 for FY 2016 until February 9, 2018. (See Table 2 for details.)

Additionally, Wateree inaccurately completed its 2017 final SF-425 by entering on line 10i a required non-Federal match amount of \$1,904,296,<sup>5</sup> which was based on the total amount of Federal funds authorized, instead of correctly entering \$1,750,709 based on the amount of Federal funds expended.

Wateree did not file its SF-425s on time or accurately because of executive management staff turnover and inadequate internal controls over effective information and communication. As a result of filing its 2016 final SF-425 more than 9 months late, Wateree is subject to a variety of administrative actions for noncompliance, such as the temporary withholding of cash payments or wholly or partly suspending or terminating the Federal award. By incorrectly entering a higher dollar amount on line 10i, and thereby calculating a higher dollar amount on line 10k, Wateree requested a higher waiver amount than appropriate and made itself potentially subject to a larger Federal fund disallowance.

### **Wateree Did Not File Single Audits on Time**

Federal regulations require that a non-Federal entity that expends \$750,000 or more during its FY in Federal awards must have a Single Audit conducted (45 CFR § 75.501(a)). Federal regulations also require that the audit be completed and submitted within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of its FY (45 CFR § 75.512(a)). Federal regulations also provide remedies if a non-Federal entity fails to comply with Federal statutes, regulations, or the terms and conditions of a Federal award (45 CFR § 75.371).

Our prior audit found that Wateree did not file its Single Audit reports on time and had repeat findings from year to year. Wateree's management provided the same responses year after year acknowledging its responsibilities and stating that they would correct the findings, but they failed to do so. Our current audit found that Wateree did not submit either its 2016 or its 2017 Single Audits on time. Instead of filing its Single Audits no later than September 30 of the following year as required, it filed them on June 29, 2018, and December 3, 2018, 9 months and 3 months after their respective due dates. (See Table 2 for details.)

---

<sup>5</sup> In accordance with SF-425 instructions, the following dollar amounts should be entered on lines 10i, 10j, and 10k, when completing the SF-425:

1. Line 10i should contain the 20-percent required non-Federal match amount, which is based on the amount of Federal funds expended, not the amount of Federal funds authorized.
2. Line 10j should contain the total amount of non-Federal match actually provided by the grantee.
3. Line 10k is a calculated field (line 10i minus line 10j) showing the remaining amount, if any, of additional non-Federal match required from the grantee. (This amount, if any, is used for the potential waiver request amount.)

In the 2016 and 2017 Single Audits that Wateree submitted, it made the following statements:

- “Current management is cognizant of the 9 months deadline to submit the Single Audit. Management going forward will complete the Single Audit timely” (Wateree Community Actions, Inc., Single Audit for year ended December 31, 2016).
- “Current management is cognizant of the 9 months deadline to submit the Single Audit. Management going forward will complete the Single Audit timely. The 2017 Audit was not completed timely due to the Hurricane, Michael, that hindered the scheduling of the audit”<sup>6</sup> (Wateree Community Actions, Inc., Single Audit for year ended December 31, 2017).

This is a repeat finding that we had identified in our 2016 audit report. Additionally, Wateree continued to use the same—or very similar—management responses to Single Audit findings, acknowledging its responsibilities and stating that it would correct the findings, but it failed to do so. We also noted this in our prior audit report. Accordingly, we reviewed Wateree’s internal controls over reporting and emphasized to Wateree management that the continued failure to meet reporting deadlines could result in administrative actions. Wateree did not file its Single Audit on time because of executive management staff turnover and inadequate accounting records. Specifically, according to Wateree management, its previous accounting system did not produce reliable reports that could be used for financial reporting. As a result, Wateree does not meet the criteria to be categorized as a “low-risk<sup>7</sup> auditee.” Low-risk auditees are eligible for reduced audit coverage. Moreover, Wateree is subject to administrative action from ACF.

## **WATEREE RESOLVED ONE PRIOR OIG FINDING AND IMPROVED ITS FINANCIAL CONDITION**

### **Prior OIG Audit**

During our audit, we followed up on the findings from our March 2016 audit report, in which we found that Wateree improperly managed some Federal funds. Specifically, our prior audit report found that Wateree:

- mismanaged \$696,397 of LIHEAP funds and \$5,931 of CSBG funds by loaning these funds to its Head Start program;
- did not resolve prior Single Audit findings that were repeated year after year, although Wateree’s management repeatedly acknowledged its responsibilities and stated it would do so;

---

<sup>6</sup> Hurricane Michael made landfall in the Florida Panhandle on October 10, 2018, after the reporting deadline for Wateree’s 2018 Single Audit had passed.

<sup>7</sup> To be considered low risk, an auditee must, among other things, submit its single audit timely for each of the preceding two audit periods (45 CFR § 75.520(a)).

- did not submit its Single Audit report for 2013 on time; and
- improperly carried over into the following year unused LIHEAP funds totaling \$1,250,278 and \$852,424 in FYs 2011 and 2012, respectively.

The results of our followup of the first three prior audit findings are included in our current findings discussed earlier in this report and are listed in Table 3 below. We also followed up on our prior audit finding related to carrying over unused LIHEAP funds and on our prior “Other Matters” section regarding our concerns that Wateree may not have been able to continue as a financially viable organization.

**Table 3: Audit Findings Followup**

<b>Prior Audit Findings</b>	<b>Current Status</b>
Mismanagement of funds	Repeated
Unresolved Single Audit findings	Repeated
Filing Single Audit untimely	Repeated
Improper carryover of funds	Resolved

**Wateree Did Not Improperly Carry Over Unused LIHEAP Funds**

Our prior audit found that OEO allowed Wateree to carry over \$1,250,278 of unused 2011 LIHEAP funds into 2012 and \$852,424 of unused 2012 LIHEAP funds into 2013. However, OEO did not submit the required report to HHS requesting that Wateree carry over the funds for either year. Because OEO did not submit the required report to HHS, after Wateree filed its 2013 LIHEAP Financial Status Report, OEO required Wateree to return its unused 2013 LIHEAP funds totaling \$696,397. OEO allowed Wateree to carry over unspent LIHEAP funds because OEO was not aware until January 2014<sup>8</sup> that it was required to return to the Federal Government unspent funds for which OEO had not formally requested a carryover.

During the current audit period, OEO allowed Wateree to carry over \$242,486 of unused 2016 LIHEAP funds into 2017 and \$33,882 of unused 2017 LIHEAP funds into 2018. However, during that period, OEO had submitted the required LIHEAP Carryover and Reallotment Reports to ACF. Because ACF allows carryovers when the proper form is filed, this is not a repeat finding.

---

<sup>8</sup> 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 on to 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 in January of 2014, OEO learned of the rules for returning unspent LIHEAP funds.

## Wateree Improved Its Financial Condition

Our prior audit report stated that, based on an analysis of Wateree’s financial statements for FY 2013:

[W]e 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) 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.

Wateree’s financial statements for FYs 2015 through 2017 reflected that its unrestricted net assets were (\$1,491,295), (\$1,140,802), and \$394,239, respectively. Thus, Wateree’s unrestricted net assets were no longer declining, and its financial condition improved from the time of our previous audit (Table 4).

**Table 4: Unrestricted Net Assets**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Net Improvement</b>
<b>Unrestricted Net Assets</b>	(\$1,491,295)	(\$1,140,802)	\$394,239	\$1,885,534

## CONCLUSION

In December 2014, Wateree changed the management team that was in place during our prior audit. In January 2018, Wateree installed a new accounting system that its management believes will provide better control and allow for more reliable reporting in the future. However, given Wateree’s history of repeat findings and the new issues identified in the current audit, we maintain that ACF should continue its close oversight of Wateree.

## RECOMMENDATIONS

We recommend that Wateree Community Actions, Inc.:

- monitor the non-Federal match it is receiving throughout the budget year and, if needed, either request a waiver from ACF immediately upon determining that it cannot meet its match requirements or adjust its Federal funds grant expenditures accordingly;
- ensure adequate controls are in place to prevent invoicing both Head Start and the USDA Child Nutrition programs for the same expenses;

- establish a tracking system to ensure that all required Federal reports are completed and submitted on time; and
- train staff on how to accurately complete the SF-425.

## **WATEREE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

### **WATEREE COMMENTS**

In written comments on our draft report, Wateree described actions taken or processes implemented to address our recommendations. Wateree added that it had developed a corrective action plan to prevent recurrence of the financial management problems identified in this audit. Additionally, Wateree provided documentation from ACF showing that it received a non-Federal match waiver for 2017.

In comments on our finding that Wateree did not allocate or claim costs in accordance with Federal requirements, Wateree indicated that it had resolved this issue in April 2019 and that its 2018 audit does not show a repeat of this finding.

In comments on our finding that Wateree did not meet its non-Federal match requirement for Head Start, Wateree indicated that it received approval from ACF for a waiver of the non-Federal match requirement for 2017. Wateree also indicated that it had implemented additional processes to ensure its ongoing compliance with Federal regulations.

With respect to our finding that Wateree did not file Federal reports accurately or on time, Wateree indicated that it had changed auditing firms and implemented new procedures to ensure accurate and timely submissions of Federal reports in the future.

Wateree also indicated that officials had received training and technical assistance to equip them in “putting this agency back on the right track.”

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

### **OFFICE OF INSPECTOR GENERAL RESPONSE**

With respect to our finding regarding Wateree not allocating or claiming costs in accordance with Federal requirements, after the initiation of our audit Wateree repaid the unallowable Head Start costs to ACF. However, we stand by our recommendation to ensure adequate controls are in place to prevent invoicing both Head Start and the USDA Child Nutrition programs for the same expenses.

With respect to our finding that Wateree did not meet its non-Federal match requirement for 2017, our draft report contained two recommendations: the first recommendation was to

repay the amount of funds calculated in this report, a \$252,591 disallowance, and the second recommendation was to monitor the non-Federal match Wateree is receiving throughout the budget year. Given Wateree's comments, and evidence provided that it obtained from ACF a waiver of the non-Federal match requirement for 2017 in July 2019, we have removed our recommendation to repay the disallowed amount of \$252,591. However, we stand by our recommendation to monitor the non-Federal match requirement for Head Start grants throughout the grant year and commend Wateree for implementing new processes to ensure that this monitoring happens.

With respect to our finding that Wateree did not file Federal reports accurately or on time, we commend Wateree for establishing a process and changing responsible parties to ensure that future reports are filed accurately and on time and for obtaining training and technical assistance.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

Our audit covered HHS program grants for which Wateree claimed \$27.4 million in costs during FYs 2016 and 2017 combined. To determine whether Wateree allocated and claimed costs for HHS grant funds in accordance with Federal requirements, we obtained a list of expenditures covering our audit period for the three grants covered by our audit. We then judgmentally selected for review a mix of expenditure types such as salaries, fringe benefits, indirect costs, non-Federal match costs, PMS transactions, CSBG General Emergency Assistance payments, and LIHEAP Direct Assistance payments from Wateree's general ledger. We also followed up on findings identified in OIG's prior audit report (A-04-14-04026).

We did not perform an overall assessment of Wateree's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective.

We performed fieldwork from November 2018 through August 2019 at Wateree's Administrative office in Columbia, South Carolina.

### METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and policies on HHS grant awards;
- reviewed the South Carolina State plans for 2016 and 2017 for CSBG and LIHEAP, as well as OEO's LIHEAP Administrative Guide for 2016 and 2017;
- reviewed Wateree's 2016 and 2017 Single Audit reports and final SF-425s;
- reviewed the prior HHS OIG audit of Wateree (A-04-14-04026) and certain workpapers;
- performed a risk assessment of Wateree's governance and culture, strategy and objective setting, performance, information, communication and reporting, and fraud risk;
- met with Wateree officials to determine the policies, procedures, and controls related to monitoring and reporting of program grant funds;
- reviewed Wateree's financial management system policies, procedures, and internal controls to determine whether it could account for multiple HHS grant funding sources;
- obtained a list of HHS grant awards made to Wateree for the audit period;

- traced and reconciled PMS drawdowns to bank statements and to the ledger account in the accounting records, as applicable;
- obtained a list of costs claimed by Wateree for the three grant awards audited;
- judgmentally selected various types of costs claimed and reviewed supporting documentation to determine allowability;
- reviewed Wateree’s indirect cost allocation;
- determined whether Wateree allocated and claimed costs in accordance with Federal requirements; and
- discussed the results of our audit with Wateree 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.

**APPENDIX B: WATEREE'S HHS GRANT EXPENDITURES FOR 2016 AND 2017**

<b>Award Type</b>	<b>Grant Number</b>	<b>Grant Type</b>	<b>Reporting Period Dates</b>	<b>Expenditures</b>
Direct	046CH469103	Head Start	1/1/16 - 12/31/16	\$8,229,719
Direct	046CH469104	Head Start	1/1/17 - 12/31/17	8,437,808

<b>Total Direct Awards</b>	<b>\$16,667,527</b>
----------------------------	---------------------

Subaward	G-16B1SCCOSR	CSBG	1/1/16 - 12/31/16	1,204,079
Subaward	G-16B1SCLIEA	LIHEAP	1/1/16 - 12/31/16	4,027,374
Subaward	G-17B1SCCOSR	CSBG	1/1/17 - 12/31/17	1,866,507
Subaward	G-17B1SCLIEA	LIHEAP	1/1/17 - 12/31/17	3,705,565

<b>Total Subawards</b>	<b>\$10,803,525</b>
------------------------	---------------------

<b>Total HHS Grant Expenditures During Audit Period</b>	<b>\$27,471,052</b>
---------------------------------------------------------	---------------------



# Waterree Community Actions, Inc.

HEADQUARTERS: 1915 Harden Street • Post Office Box 8328 • Columbia, SC 29202

Phone: 803.807.9811 • Fax: 803.807.9810 • Email: [wcaadmin@wcai.org](mailto:wcaadmin@wcai.org) • Website: [www.wcai.org](http://www.wcai.org)

Annette Tucker, Chief Executive Officer

Attorney Donald Gist, Board Chairman

December 18, 2019

Ms. Lori S. Pilcher  
Regional Inspector General for Audit Services  
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 Ms. Pilcher

This letter provides a response to the November 21, 2019 report regarding the results of the (OIG), draft report entitled *Waterree Community Actions, Inc., Made Improvements but Still Requires Monitoring*. The management change that took place in December 2014 encompassed five years of agency corrections. These corrections began in 2015 during the completion of the 2013 audit and continued as we completed the 2014, 2015, 2016 and 2017 within the four (4) year timeline period. Again, as previously stated this agency has 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. The 2018 audit provides a true picture of the corrections made, policy and process implemented to address and eliminate future concerns/issues. Below are the responses to the monitoring findings:

Finding:

- **Waterree Did Not Allocate or Claim Costs in Accordance with Federal requirements.**

**Response:** Waterree Community Actions Inc. (WCAI) has implemented processes to ensure there are no misallocation of funds. This finding was corrected April 1, 2019. The 2018 Audit has no repeated finding of misallocation of funds, it provides evidence of the corrections being made as well as new processes that shows WCAI continuation of being in compliance with federal regulations.

Finding: **Waterree Did Not Meet Its Non-Federal Match Requirement for Head Start.**

**Response:** Waterree submitted a non-federal waiver application and has received approval of the non-federal funds waiver. Waterree has attached a copy of the approved Notice of Award for the Non-Federal Waiver for 2017. Waterree has added to its policy the process for requesting a non-federal waiver; these processes ensure WCAI is in compliance with federal regulations.

Finding:

- **Wateree Did Not File Federal Reports Accurately or on Time.**

**Response:** Wateree changed auditing firms in 2014 and 2015 to ensure the auditing firm has the capacity in time and staff to ensure all audits moving forward are completed and filed on time. Wateree revised supervisory approval process to ensure audit, FSR, FFR and all other required reports are submitted in a timely manner. Again, Wateree transition under new management in 2015; during this time it discovered in 2015 that 2013 audit wasn't submitted. This created a domino effect on the timely submission of its audits except for the 2018. The 2018 Audit was submitted on time. Wateree will follow its process to continue the submission of all its audits in a timely manner.

Finding: **Wateree Did Not File Its Federal Financial Reports Accurately or on Time**

**Response:** As stated in the previous paragraph Wateree has implemented processes to ensure that all reports are filed accurately and on time. Wateree has transitioned to a new software that will provide accurate information for reporting purposes.

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. Wateree continues 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. Again, the 2018 audit reveals a true picture of the changes, new policies and procedures implement to bring compliance to this agency and corrections of all these findings.

*Respectfully,*

*Annette Tucker*

*Annette Tucker*

*Chief Executive Officer*

*Wateree Community Actions, Inc.*

cc: Attorney Donald Gist, Board Chairman  
Business File