DEPARTMENT OF HEALTH & HUMAN SERVICES **OFFICE OF INSPECTOR GENERAL**

Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

December 22, 2011

Report Number: A-04-11-03538

Mr. Victor Lockett
Board of Directors
Board Chair
Mobile Community Action, Inc.
461 Donald Street
Mobile, AL 36617

Dear Mr. Knight:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Costs Mobile Community Action, Inc., Allocated to Head Start Grant No. 04CH3465*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me, or contact John T. Drake, Audit Manager, at (404) 562-7755 or through email at John.Drake@oig.hhs.gov. Please refer to report number A-04-11-03538 in all correspondence.

Sincerely,

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

Enclosure

Direct Reply to HHS Action Official:

Mr. Jeffrey Fredericks
Regional Program Manager
Administration for Children and Families
U.S. Department of Health and Human Services
61 Forsyth Street, SW, Suite 4M60
Atlanta, GA 30303

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

REVIEW OF COSTS MOBILE COMMUNITY ACTION, INC., ALLOCATED TO HEAD START GRANT NO. 04CH3465

Daniel R. Levinson
Inspector General

December 2011
A-04-11-03538

Office of Inspector General

http://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:

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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.

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Section 8L 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.

EXECUTIVE SUMMARY

BACKGROUND

Pursuant to P.L. No. 110-134, *Improving Head Start for School Readiness Act of 2007*, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social, and other services to enrolled children and families. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF) administers Head Start.

Under the *American Recovery and Reinvestment Act of 2009*, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received $3.15 billion including nearly $354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation, and enhance transportation services. Also, $356 million was allocated to award all Head Start grantees a nearly five percent cost-of-living increase and to bolster training and technical assistance activities.

Mobile Community Action, Inc. (MCA), is a center-based Head Start program. One of the first child development programs in Mobile, Alabama, MCA has served the communities of Mobile and Washington Counties since May 1965. MCA serves 1,429 children through the operation of 12 centers and 83 classrooms.

MCA is funded primarily through Federal Government grants. During the period September 1, 2008, through August 31, 2010, ACF provided Head Start grant funds to MCA totaling $17.2 million ($8.3 million for the grant year (GY) 2009 and $8.9 million for GY 2010).

OBJECTIVE

Our objective was to determine whether MCA allocated costs to Head Start in accordance with Federal Regulations.

SUMMARY OF FINDINGS

MCA did not always allocate costs to Head Start in accordance with Federal regulations. Specifically, MCA overclaimed indirect costs charged to its Head Start grants by $147,587. In addition, MCA:

- incorrectly reported Head Start expenses and indirect costs on its Federal Financial Status Reports (SF-269) for 2009 and 2010,
- made employee incentive payments that were not always approved by the Board of Directors or were not supported by adequate documentation, and
- drew Head Start funds without always documenting the basis for the drawdowns.

These conditions occurred because MCA:

- did not have an up-to-date indirect cost rate agreement,
- did not adequately review its Federal financial reports (SF-269) prior to submission,
- did not follow its policies and procedures for the approval of employee incentive payments or did not have policies and procedures that required adequate documentation for the payments, and
- did not have adequate policies and procedures to ensure that the drawdown of Head Start funds was based on actual expenses and the basis for the drawdown was documented.

RECOMMENDATIONS

We recommend that MCA:

- refund to Head Start $147,587 in unallowable indirect costs,
- submit an Indirect Cost Rate Proposal to the Division of Cost Allocation immediately and each forthcoming year within 6 months after the close of its fiscal year,
- submit a revised SF-269 for GYs 2009 and 2010,
- document the Board of Directors' approval for all employee incentive payments,
- develop and implement policies and procedures that require the submission and maintenance of adequate documentation to support employee incentive payments, and
- develop and implement adequate policies and procedures to ensure that it bases the drawdown of Federal funds on actual expenses and documents the basis for the drawdown.

MOBILE COMMUNITY ACTION AGENCY, INC., COMMENTS

In written comments on our draft report, MCA generally agreed with most of our findings and outlined corrective actions that it had taken or planned to take to address the deficiencies we noted. However, MCA did not agree with our finding regarding costs it improperly allocated and reported, and it did not fully respond to our finding regarding employee incentive payments.

Costs Improperly Allocated and Reported

In regard to this finding, MCA said that it was due additional indirect costs because it had not previously included in its computation of indirect costs claimed the salaries of MCA cafeteria staff that were charged to Head Start but not reimbursed by the U.S. Department of Agriculture (USDA) food program. MCA also believed that the results of its indirect cost rate computations, which it included with its comments, for each of the 3 years ending December 31, 2010, justified its claim for the indirect costs we questioned.

In further regard to this finding, MCA did not specifically comment on our finding that it incorrectly reported $163,980 twice—once as an expense and again as part of the unobligated balance on its SF-269 for grant year 2009.

Employee Incentive Payments

In regard to the portion of this finding that MCA did not provide a justification for paying $3,150 as a one-time incentive payment to an employee whose normal salary was directly funded by Head Start, MCA said that the incoming Head Start Director received the same percentage as a top level management employee.

MCA's comments are included as the Appendix. We are excluding attachments totaling 34 pages because of its volume and because it contained personally identifiable information. We are providing ACF with MCA's comments in their entirety.

OFFICE OF INSPECTOR GENERAL RESPONSE

Costs Improperly Allocated and Reported

Although MCA provided documentation that it believed supported its claim for additional indirect costs, the documentation did not show the extent to which MCA received reimbursement from USDA for the cafeteria staff's salaries. Also, MCA's computation of the $59,150 of additional indirect costs did not take into consideration that our review covered its grant-report period of September 1, 2008, to August 31, 2010. MCA also did not indicate when it submitted for approval its indirect cost rate proposals to the HHS, Division of Cost Allocation. Finally, MCA did not specifically comment on the $88,437 balance ($147,587 less $59,150) of the indirect costs we questioned.

Employee Incentive Payments

MCA's comments indicate that it may have misunderstood our finding regarding incentive payments. Our finding was that MCA often made incentive payments without providing any justification for the payments and that it did not always have documentation to show that the payments were approved by the Board of Directors.

MCA's comments are included in their entirety as the Appendix. Nothing in MCA's comments caused us to change our findings or recommendations.

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INTRODUCTION

BACKGROUND

Head Start

Pursuant to P.L No. 110-134, *Improving Head Start for School Readiness Act of 2007*, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social, and other services to enrolled children and families. Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF) administers Head Start.

Head Start provides grants to local public and private non-profit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families, with a special focus on helping preschoolers develop the early reading and math skills needed to be successful in school. Head Start engages parents in their children's learning and emphasizes parental involvement in administering local Head Start programs.

Under the *American Recovery and Reinvestment Act of 2009*, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received $3.15 billion, including nearly $354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation, and enhance transportation services. Also, the Recovery Act allocated $356 million to award all Head Start grantees a nearly 5 percent cost-of-living increase and to bolster training and technical assistance activities.

Mobile Community Action, Inc.

Mobile Community Action, Inc. (MCA), is a center-based Head Start program. One of the first child development programs in Mobile, Alabama, MCA has served the communities of Mobile and Washington Counties since May 1965. MCA serves 1,429 children through the operation of 12 centers and 83 classrooms.

MCA is funded primarily through Federal Government grants. During the period September 1, 2008, through August 31, 2010, ACF directly provided Head Start grant funds to MCA totaling $17.2 million ($8.3 million for the grant year[1] (GY) 2009 and $8.9 million for GY 2010).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether MCA allocated costs to Head Start in accordance with Federal regulations.

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[1] MCA's grant year covered the period September 1 through August 31.

Scope

We performed this review based on a limited scope request from ACF. Therefore, we did not perform an overall assessment of MCA's internal control structure. Instead, we reviewed only the internal controls that pertained directly to our objective. Our review period covered GYs 2009 and 2010.

We performed our fieldwork at MCA's administrative office in Prichard, Alabama, during February and May 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- obtained Federal and local government grant award documentation to determine MCA's funding;
- reviewed MCA's policies and procedures;
- interviewed MCA personnel to gain an understanding of MCA's operations;
- reviewed MCA's financial statements for calendar years 2006, 2007, 2008, and 2009;
- reviewed MCA's revenue and expense accounts and *Federal Financial Status Reports* (SF-269[2]);
- reviewed MCA's general ledgers and payroll reports;
- obtained and reviewed MCA's *Indirect Cost Rate* agreement from the HHS Division of Cost Allocation;
- reviewed MCA's *Employee Incentives*;
- reviewed MCA's indirect *Revenue and Expenses Reports*; and
- provided a summary of our preliminary findings to ACF.

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

[2] Effective February 1, 2011, the Department of Health and Human Services replaced the SF-269 with the SF-425 for expenditure reporting.

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

MCA did not always allocate costs to Head Start in accordance with Federal regulations. Specifically, MCA overclaimed indirect costs charged to its Head Start grants by $147,587. In addition, MCA:

- incorrectly reported Head Start expenses on its SF-269 for 2009 and 2010,
- made employee incentive payments that were not always approved by the Board of Directors or were not supported by adequate documentation, and
- drew Head Start funds without always documenting the basis for the drawdowns.

These conditions occurred because MCA:

- did not have an up-to-date indirect cost rate agreement,
- did not adequately review its SF-269s prior to submission,
- did not follow its policies and procedures for the approval of employee incentive payments or did not have policies and procedures that required adequate documentation for the payments, and
- did not have adequate policies and procedures to ensure that the drawdown of Head Start funds was based on actual expenses and the basis for the drawdown was documented.

FEDERAL REQUIREMENTS

Pursuant to 2 CFR § 230, Appendix A, part C (1) *Indirect Costs*, indirect costs are those that have been incurred for common and joint objectives and cannot be readily identified with a particular final cost objective.

Furthermore, § 230 Appendix A, part E (2)(c), *Negotiation and Approval of Rates*, states that organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency within 6 months after the close of each fiscal year.

In addition, 2 CFR § 215.21(b) (1), *Standards for Financial Management Systems*, requires recipients of Federal awards to have accurate, current, and complete disclosure of the financial results of each federally sponsored project or program. Also, § 215.52(a)(1)(i) requires recipients to use an SF-269 to report the status of funds for all non-construction projects or programs from a Federal awarding agency.

Furthermore, 2 CFR § 230, Appendix B(8)(j) states that incentive compensation to employees based on cost reduction, efficient performance, suggestion awards, safety awards, etc. are allowable if the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered or pursuant to an established plan followed by the organization so consistently as to imply, in effect, an agreement to make such payment.

Pursuant to 45 CFR § 74.21, grantees are required to maintain financial management systems that provide effective control over and accountability for all funds and maintain accounting records that are supported by source documentation.

Pursuant to 2 CFR § 215.21(b) (5), recipients are required to have written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes by the recipient.

MOBILE COMMUNITY ACTION POLICIES AND PROCEDURES

MCA's *Employment Manual*, section 5.3, *Compensation Policies*, *Employee Incentive*, states:

> MCA, Inc., in its effort to compensate and retain quality staff proposes the following for its management team and support staff <u>if funds are available</u> [original emphasis]:
>
> Members of the management team, both exempt and non-exempt employees, who perform above and beyond their scope of work.
>
> Duties include, but are not limited to members who:
> - Open and close buildings (key holder)
> - Supervises Staff
> - Are on call 24/7
> - Attend Board Meetings
>
> Other items to be considered:
> - Board and Policy Council Approval
> - Job Performance
> - Longevity (three months minimum)
> - Availability of funds will determine an amount/percentage
> - Funds will be granted at the end of the calendar year

COSTS IMPROPERLY ALLOCATED AND REPORTED

MCA did not properly allocate indirect costs to the Head Start grant and overclaimed indirect costs on its SF-269 for the 2009 and 2010 grant years. MCA had an approved indirect cost rate of 10.5 percent during the audit period. Pursuant to its indirect cost rate agreement, MCA should have applied its indirect cost rate to a base that consisted of direct salaries, wages, and fringe benefits.

For the 2009 grant year, MCA's indirect cost base, as recorded in its accounting records, was $5,675,414. Based on this amount, the allowable indirect costs that should have been charged to the Head Start grant was $595,918 or $77,520 less than MCA claimed on its SF-269 for grant year 2009. For GY 2010, the indirect cost base as recorded in MCA's accounting records was $5,523,173. Based on this amount, the allowable indirect costs that should have been charged to the Head Start grant was $579,933 or $70,067 less than MCA claimed on its SF-269 for GY 2010.

Additionally, for grant year 2009, MCA reported an unobligated balance of $170,228 in its final SF-269. However, MCA overreported grant expenditures by $163,980, which caused the unobligated balance. Thus, MCA incorrectly reported $163,980 twice—once as an expense and again as part of the unobligated balance.

No Indirect Cost Rate Agreement or Adequate Review

MCA overclaimed indirect costs because it did not have an up-to-date indirect cost rate agreement, nor did it adequately review its SF-269s prior to submitting them to ACF. MCA's current indirect cost rate was approved in January 2007 and was effective from January 1, 2006, until amended. At the time of our audit fieldwork, MCA had not submitted a new indirect cost rate proposal. When questioned about the discrepancies between the SF-269 and the accounting records, MCA agreed that 12 percent was the amount that had been charged to the Head Start grant for indirect costs. MCA believed that once a new indirect cost rate proposal was submitted, the new rate would be 12 percent or more. MCA further reasoned that because this new rate would have been based on 2009 and 2010 actual expenditures, the 12 percent that had previously been charged to the Head Start grants during 2009 and 2010 would be correct. As a result, MCA overcharged the Head Start grant by $147,587 for grant years 2009 and 2010.

EMPLOYEE INCENTIVE PAYMENTS

MCA made employee incentive payments from its Indirect Fund that were not always approved by its Board of Directors or were not supported by adequate documentation. MCA records in an Indirect Fund the money that it receives from its Head Start, Community Services Block Grant (CSBG), Low Income Home Energy Assistance Program, and General Fund as reimbursement for indirect costs. MCA makes salary and fringe benefit payments from this fund to the administrative personnel approved in its indirect cost rate agreement. MCA also makes payments from the Indirect Fund for miscellaneous expenses that cannot be specifically identified to a program.

During the 2 GYs reviewed, we identified five groups of incentive payments to employees totaling $82,399 that MCA paid from the Indirect Fund. However, MCA's Board of Directors approved only one of the payments, and adequate documentation was unavailable to show that the incentive payment was warranted.

MCA officials offered the following rationale for the five groups of incentives:

- MCA paid $25,951 in incentive payments because agency policy allowed for management team incentives around November or December of every year if funds were available.

- MCA paid $22,354 to employees incrementally through the end of the year for the additional work they performed on CSBG Recovery-Act-funded projects. MCA did not provide any other documentation or explanation to justify the payment.

- MCA paid $16,616 to employees for the additional work they performed on Recovery-Act-funded projects. MCA did not specify from which Recovery Act projects it compensated the employees, nor did MCA have documentation to show what work the employees did. These Recovery Act projects are the only group of incentives that received Board of Director approval.

- MCA paid $14,328 to employees for the additional work they performed on CSBG Recovery-Act-funded projects. MCA explained that this amount represented a lump-sum amount, retroactive to the beginning of the year. MCA did not provide any other documentation or explanation to justify the payment.

- MCA paid $3,150 as a one-time payment to an employee whose normal salary was directly funded by Head Start. MCA did not provide any other documentation or explanation to justify the payment.

For four of the five incentives we identified, MCA had no documentation to support the reasons for granting them. These incentives were all paid from the Indirect Fund. Because the Indirect Fund contained money from several sources, both Federal and non-Federal, we were unable to determine the specific source of funds MCA used to pay these incentives. We were, however, able to determine that about 82 and 78 percent of the money MCA deposited in its Indirect Fund in grant years 2009 and 2010, respectively, came from Head Start.

Inadequate Policies and No Supporting Documentation

MCA did not follow its policies and procedures for the approval of employee incentive payments because it did not receive Board or Policy Council approval for the incentives we identified. Additionally, MCA did not have policies and procedures that required adequate documentation for the payments.

UNSUPPORTED CASH DRAWS

MCA could not provide documentation to support selected cash draws from the Department's Payment Management System[3] (PMS). We judgmentally selected 15 draws totaling $2,553,092

[3] The Payment Management System is the key system HHS uses for disbursing grant funds. PMS provides Web-based access to grantees to request grant fund disbursements and transmits those funds electronically to grantees. It also provides real time account information to grantee and Federal grant awarding agencies.

to trace to supporting documentation. Of this amount, 13 draws totaling $2,423,646 did not have sufficient documentation to support the amount drawn.

For example, some of the draws' only supporting documents were bank account reports from MCA's general ledger system that indicated that the bank balance was negative. Some of the draw documentation contained accounts payable reports dated near the time of the draw. However, we were unable to reconcile the amount of these reports to the amount drawn from PMS. Specifically, for two draws totaling $527,532, MCA drew Head Start funds to cover payroll for the same pay period twice and provided no documentation to show that this was corrected on a future draw. Another draw only had a handwritten note to document that the amount of $106,003 should be drawn. At the time of our fieldwork, MCA researched this draw and explained that, at that time, (1) the bank balance had been negative and (2) by adding together accounts payable reports produced for our review, MCA actually drew less than what the supporting documentation required.

Lack of Cash Draw Procedures and Not Following Documentation Procedures

Although MCA's policy manual included a procedure for making electronic fund transfers, it did not specify a standard procedure for calculating the drawdown amounts based on actual expenses. Therefore, each time MCA drew money from PMS, it used a different method to calculate the amount drawn. Furthermore, although MCA's policy manual required adequate supporting documents to be maintained for each award, MCA did not consistently follow that policy. By not having a procedure for calculating drawdown amounts based on actual expenses and by failing to follow its policy requiring adequate supporting documents to be maintained, MCA increased the risks of mismanagement of its cash draws and of a material misstatement of its Federal financial reporting.

RECOMMENDATIONS

We recommend that MCA:

- refund to Head Start $147,587 in unallowable indirect costs,

- submit an Indirect Cost Rate Proposal to the Division of Cost Allocation immediately and each forthcoming year within 6 months after the close of its fiscal year,

- submit a revised SF-269 for GYs 2009 and 2010,

- document the Board of Directors' approval for all employee incentive payments,

- develop and implement policies and procedures that require the submission and maintenance of adequate documentation to support employee incentive payments, and

- develop and implement adequate policies and procedures to ensure that it bases the drawdown of Federal funds on actual expenses and documents the basis for the drawdown.

MOBILE COMMUNITY ACTION AGENCY, INC., COMMENTS

In written comments on our draft report, MCA generally agreed with most of our findings and outlined corrective actions that it had taken or planned to take to address the deficiencies we noted. However, MCA did not agree with our finding regarding costs it improperly allocated and reported, and it did not fully respond to our finding regarding employee incentive payments.

Costs Improperly Allocated and Reported

In regard to this finding, MCA said that it was due additional indirect costs because it had not previously included in its computation of indirect costs claimed the salaries of MCA cafeteria staff that were charged to Head Start but not reimbursed by the U.S. Department of Agriculture (USDA) food program. MCA also believed that the results of its indirect cost rate computations, which it included with its comments, for each of the 3 years ending December 31, 2010, justified its claim for the indirect costs we questioned.

In further regard to this finding, MCA did not specifically comment on our finding that it incorrectly reported $163,980 twice—once as an expense and again as part of the unobligated balance on its SF-269 for grant year 2009.

Employee Incentive Payments

In regard to the portion of this finding that MCA did not provide a justification for paying $3,150 as a one-time incentive payment to an employee whose normal salary was directly funded by Head Start, MCA said that the incoming Head Start Director received the same percentage as a top level management employee.

MCA's comments are included as the Appendix. We are excluding attachments totaling 34 pages because of its volume and because it contained personally identifiable information. We are providing ACF with MCA's comments in their entirety.

OFFICE OF INSPECTOR GENERAL RESPONSE

Costs Improperly Allocated and Reported

MCA provided documentation that it believed supported its claim for additional indirect costs, which included listings of food service employees and their salaries for the 2-year period, October 1, 2008, through September 30, 2010. MCA's documentation also showed that it applied its current 10.5 percent provisional indirect cost rate to these food service employees' salaries and fringe benefits to arrive at additional indirect costs totaling $59,150.

However, this documentation did not show the extent to which MCA received reimbursement from USDA for the cafeteria staff's salaries. Also, MCA's computation of the $59,150 of additional indirect costs did not take into consideration that our review covered its grant-report period of September 1, 2008, to August 31, 2010. MCA included the indirect cost rate computation for the 3 years ended December 31, 2008, 2009, and 2010 and justified any additional indirect costs it may have charged to the Head Start grant as allowable based on these calculated rates.

Even though MCA included schedules showing its indirect cost rate computations for the 3 years ending December 31, 2008, 2009, and 2010, it did not indicate when or whether it submitted for approval these indirect cost rate proposals to the HHS, Division of Cost Allocation. MCA should not claim indirect costs based on rates that have not been approved by the Division of Cost Allocation.

Finally, MCA did not specifically comment on the $88,437 balance ($147,587 less $59,150) of the indirect costs we questioned.

Employee Incentive Payments

MCA's comments indicate that it may have misunderstood our finding regarding incentive payments. Our finding was that MCA often made incentive payments without providing any justification for the payments and that it did not always have documentation to show that the payments were approved by the Board of Directors.

MCA's comments are included in their entirety as the Appendix. Nothing in MCA's comments caused us to change our findings or recommendations.

OTHER MATTER

We noted potential issues with MCA's claiming and recording of In-Kind contributions and expenditures. MCA claimed $4,189,385 as In-Kind contributions for grant years 2009 and 2010. MCA records as In-Kind (1) the cost of donated space, (2) donations, (3) the value of time donated by volunteers, and (4) the value of home activities performed by volunteers. Additionally, MCA records the value of (1) Professional Volunteer Services and (2) Professional Donations. We judgmentally selected 24 items during the audit period and requested the documentation to support the amounts claimed. With respect to the Professional Volunteer Services and Professional Donations, MCA maintained documentation to support all 12 items totaling $226,952. For these two In-Kind categories, documentation included such items as doctor bills, receipts for book donations, receipts for use of building space donated for meetings, and a valuation of the Board of Directors' time spent conducting meetings.

Of the 12 items reviewed in the categories of home activities and time donated by volunteers, MCA was able to provide documentation to support $108,959 of the $115,079 claimed as In-Kind. However, MCA could not provide documentation to support $6,119. Examples of support for these categories included sign-in/sign-out sheets for parents attending parent meetings, volunteering to read in the classroom, and washing bed linens for the center. Home activity documentation consisted of monthly sheets showing activities conducted at home with the children to reinforce the lessons learned at school.

APPENDIX

APPENDIX: MOBILE COMMUNITY ACTION AGENCY, INC., COMMENTS

community Action PARTNERSHIP
Helping People. Changing Lives

Mobile Community Action, Inc.
461 Donald Street
Mobile, Alabama 36617
(Serving Mobile and Washington Counties)
(251) 457-5700 *Fax (251) 457-5721*
www.mcamobile.org

October 14, 2011

Jimmy Knight
Executive Director

Report Number: A-04-11-03538

Mr. John T. Drake, Jr.
Acting, Regional Inspector General for Audit Services
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

Dear Mr. Drake:

On behalf of the Board of Directors of Mobile Community Action, Inc., (MCA) I would like to thank you for the opportunity of responding to the above referenced report. The OIG team was very professional and precise. It was a pleasure to work with members of your staff.

Mobile Community Action has served Mobile and Washington counties for over 46 years, with Choctaw County's Weatherization program added in 2009. A premier Head Start program that now serves 1463 children and families and a Community Services program that serves over 46,000 clients a year. Twenty-three satellite centers and five public school based locations provides services to the second largest county in the state of Alabama.

Located in the Gulf Coast presents additional challenges not experienced by most of the Community Action Agencies under the umbrella of Region IV. Responding to natural disasters and Mobile county's status as one of the top ten poverty stricken areas, MCA responds with a team of employees when and wherever the need arise.

Since 2008, the agency has been the recipient of an additional 13 million dollars. The funding outlay in 2010 was over 25 million dollars. Most of the grants allowed for additional program staff only. The administrative and support staff was not increased to support the additional funding. Therefore, four administrators and 11 hourly employees managed and produce all financial transactions, handled the influx of additional calls to the main office and Executive Director, along with processing new employees.

If you should require any additional information, or if you have questions, please do not hesitate to call my office, Loretta Foxx, Fiscal manager or Emma Prince, Assistant Executive Director/Internal Auditor.

Thank you for your continued support.

Sincerely,

Jimmy Knight

Jimmy Knight
Executive Director

JK\ep

The response to the OIG Finding, both concurrence and nonoccurrence is as follows:

Pages 3-7

Findings and Recommendations

1. COST IMPROPERLY ALLOCATED AND REPORTED

Concurrence and Nonoccurrence

It is agreed that the OIG team found documentation that did not support the total Indirect cost charged at the time of the review. However, MCA offers this following explanation and justification.

Part I- Response and Corrective Action taken and planned
Head Start refunding application includes salaries for the cafeteria staff. USDA reimburses for meals served only and the reimbursements often covers the cost of food, contracts with the public school system that provide meals for centers that do not have stand alone facilities. A small percentage of the salaries and fringes are paid from USDA funds.

The attachments below identify the expense number whereby salaries and fringes were paid by Head Start. The expenses represented were paid directly by Head Start funds, but were not posted to salary and fringes line item.

Attachment 1 and 2:	Refunding applications for 2008/2009 and 2009/2010
Attachment 3 and 4:	USDA'S earnings from payroll for the 2008-2009 and 2009/2010

	2008/2009	**2009-2010**	**USDA**	**HS**
Salaries:	$398,720.66	$437,212.15	$502,417.69	333,515.12
Benefits				
FICA	28,579.31	33,446.73		
Unemployment	19,024.00	19,024.00		
Health	24,108.00	24,108.00		
Dental	763.20	763.20		
401K	24,458.22	24,458.22		
	$96,932.73	$100,800.15	**31933.94**	229,666.82
				563,333.64**

** There is an additional $59,150.03 in allowable Indirect cost under salaries and fringes
The combined enclosed Indirect Cost Proposals for 2008 (14%); 2009 (13.92%) and 2010 (15.63%) indicate that MCA would qualify for draws made from in the Program Years 2008-2009 and

NOTE: The 2009/2010 P/Y provided funds to purchase equipment for some of the centers. Constant repairs, health and safety issues mandated replacement. The program had discontinued its transportation services due to DHR compliance issues and cost overrun. This was a one-time activity.

Part II- Response and Corrective Action taken and planned

SF-269 P/Y 2009/2010

For the program/grant years referenced, MCA operated USDA expenses parallel to the Head Start program/grant year. The expenses are allowable, since USDA does not reimburse 100% for all expenses with the exception of food purchases. All other expenses are then charged to Head Start program/grant year. The SF-269 was not reviewed prior to been submitted.

Action Plans MCA has taken or plan to take:

Corrective Action: All reports will be reviewed by management prior to be transmitted to the funding source. All allowable USDA expenses will be submitted to USDA for reimbursement and the difference will be charged to Head Start; expenses charged and revenue drawn to cover expenses and will be charged to the correct period in a timely manner.

3. No Indirect Cost Rate Agreement or Adequate Review

Response:

- MCA will submit timely Indirect Cost Proposals in a timely manner as specified in the findings. See enclosed ICP for 2008-2010
- USDA expenses being paid by Head Start will be coded as a direct expense to the general ledger at the time of activity. This will eliminate improper coding and establish the correct percentage of Indirect cost allowable.
- Pursuant to 45 CFR § 74.21, the SF-425, formally the SF-269, will be thoroughly reviewed for accuracy by all responsible parties before submission.
- Pursuant to 2 CFR § 215.21(b) (5), the Fiscal Policies and Procedures will be modified and presented to the governing bodies for approval/disapproval at the next board meeting. At the time sighted, the Fiscal Department had suffered two catastrophic situations and a vacancy. The procedures documented in the Fiscal Policies and Procedures Manuel is currently being adhered to, and additional staff has been trained to draw funds with supporting documentation. The draws for Indirect are being calculated at the time Head Start payroll is processed for payment. This will eliminate any out of schedule activity.

3. Employee Incentive Payments

MCA's Response:

- In accordance to 2CFR § 230, Appendix B(8)(j): MCA will submit an updated Human Resources Policy and Procedure guidelines for incentives to the Board of Directors during the November board meeting for approval stipulating

- Beginning mid 2008 MCA's budget began its growth from an average of under 13 to over 25 million. The Stimulus grants provided jobs in the social services satellite centers, as well as, secondary weatherization staff. The additional workload on the Indirect staff, (finance, secretarial, human resources and upper management was astronomical. The funds were short lived and permanent increases in salaries were not an option, nor was there time and office space to train new employees. One temporary finance employee was hired to assist with the additional paperwork. Note: that employee became permanent as of October 2010.

- The support and Indirect management staff received an incentive in August 2008. This incentive was paid as any normal payroll supported by the programs depositing into the Indirect pool.

- Federal funds were not used to pay incentives to the management team dated in December 2008 and November 2009.

OIG
MCA paid $3,150 as a one-time payment to an employee whose normal salary was directly funded by Head Start. MCA did not provide any other documentation or explanation to justify the payment.

MCA's Response:

- The incoming Head Start Director received the same percentage as a top level management employee.

OIG
For four of the five incentives we identified, MCA had no documentation to support the reasons for granting them. These incentives were all paid from the Indirect Fund. Because the Indirect Fund contained money from several sources, both Federal and non-Federal, we were unable to determine the specific source of funds MCA used to pay these incentives. We were, however, able to determine that about 82 and 78 percent of the money MCA deposited in its Indirect Fund in grant years 2009 and 2010, respectively, came from Head Start.

MCA's Response:

- The Head Start program has an average of 270 employees. The program operates 12 stand alone centers and five public school based classrooms. The percentage of contribution is the greater based on staffing size. Equitability in funding the indirect cost pool is achieved when Community Services administrative grant (CSBG) submits a 2-Year WorkPlan that includes a portion of the support salaries as a direct expense. The balance is then deducted from the ICP. This eliminates the possibility of federal funds paying more than its share in the Indirect. Without this option, there is not an Indirect Cost Rate that would adequately cover the programs' portion of the Indirect salaries and fringes.

OIG- Unsupported Cash Draws

MCA's Response

- Pursuant to 45 CFR § 74.21, the SF-425, formally the SF-269, will be thoroughly reviewed for accuracy by all responsible parties before submission.

- Pursuant to 2 CFR § 215.21(b) (5), the Fiscal Policies and Procedures will be modified and presented to the governing bodies for approval/disapproval at the next board meeting. At the time sighted, the Fiscal Department had suffered two catastrophic situations and a vacancy. The procedures documented in the Fiscal Policies and Procedures Manuel is currently being adhered to, and additional staff has been trained to draw funds with supporting documentation. The draws for Indirect are being calculated at the time Head Start payroll is processed for payment. This will eliminate any out of schedule activity.

- MCA will modify all procedures sited in the findings and submit them to the Board of Directors for full approval including, but not limited to incentives, financial procedures to meet compliance with all federal guidelines.

- MCA's staff is currently processing federal reports as stipulated to insure the previous findings are not repeated.