

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CENTER FOR COMMUNITY AND
FAMILY SERVICES, INC.,
DID NOT EXPEND HEAD START
AND RECOVERY ACT FUNDS
IN ACCORDANCE WITH
FEDERAL REQUIREMENTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Kay L. Daly
Assistant Inspector General**

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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

BACKGROUND

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major objectives of the program are to promote school readiness and enhance the social and cognitive development of children from families with low incomes by providing educational, health, nutritional, and social services. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF), Office of Head Start (OHS), administers the Head Start and Early Head Start programs. (We refer to both programs as the Head Start program.) Congress appropriated \$7.2 billion in fiscal year (FY) 2010 and \$7.6 billion in FY 2011 to fund Head Start's regular operations.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, provided an additional \$2.1 billion for the Head Start program during FYs 2009 and 2010. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for employees of Head Start grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

The Center for Community and Family Services, Inc. (the Center), a nonprofit corporation, is funded by various Federal and State agencies. The Center operated a Head Start program in West San Gabriel Valley, Los Angeles County, California. The Center's mission was to help low-income families break the cycle of poverty by achieving more economic self-sufficiency. The Center relinquished its Head Start funds effective October 7, 2011.

For the period July 1, 2009, through September 29, 2011, ACF awarded five grants to the Center, totaling approximately \$27.4 million. The grants consisted of \$23.4 million in Head Start funds to continue the Center's Head Start operations and \$4 million in Recovery Act funds to expand enrollment and to make cost-of-living adjustments and Head Start quality improvements. ACF requested that we compare grant funds that the Center received for the period July 1, 2009, through March 31, 2011, with the total expenditures that the Center reported to ACF during that period. ACF also requested that we review selected transactions for expenditures incurred from July 1, 2010, through March 31, 2011.

Pursuant to 45 CFR § 74.27(a), nonprofit organizations that receive ACF funds must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*. Also, as Federal grantees, nonprofit organizations must maintain financial management systems pursuant to the standards at 45 CFR § 74.21.

OBJECTIVES

Our objectives were to determine whether the Center (1) maintained adequate financial records to support grant funds received from ACF, (2) claimed costs that were allowable, and (3) maintained financial management systems and practices that complied with Federal requirements.

SUMMARY OF FINDINGS

The Center did not maintain adequate financial records to support grant funds received from ACF and claimed costs that were unallowable:

- Of the \$18,811,894 that the Center received for the period July 1, 2009, through March 31, 2011, the Center received \$197,827 in cash advances and reported to ACF \$73,543 in costs that were unallowable because they were not supported by its accounting records. In addition, the Center allocated to the Head Start program \$785,296 in costs that were not supported by adequate records; these costs were shared by Head Start and two State programs for which the Center received funding. We set aside the \$785,296 for resolution by OHS.
- Of the \$5,971,269 in selected transactions that we reviewed for the period July 1, 2010, through March 31, 2011, the Center claimed \$317,285 in costs that were allowable; \$696,017 in indirect, accrued, equipment, contractual, other direct, and vision insurance costs that were unallowable; and \$4,957,967 in salary and wage and related fringe benefit costs that were not adequately supported. We set aside the \$4,957,967 for resolution by OHS.

In total, we determined that \$967,387 was unallowable, and we set aside \$5,743,263 for resolution by OHS.

In addition, the Center did not maintain financial management systems and practices that complied with Federal requirements. Specifically, the Center did not maintain a financial management system that safeguarded assets, did not always maintain Federal funds in insured bank accounts, and did not maintain property management and procurement standards in accordance with Federal requirements.

RECOMMENDATIONS

We recommend that OHS:

- require the Center to refund \$967,387 to the Federal Government and
- work with the Center to determine the allowability of \$5,743,263 that we set aside and ensure that the Center refunds any amount that is determined to be unallowable.

We are not making recommendations to address the Center's noncompliance with Federal requirements for financial management systems and practices because the Center relinquished its Head Start funds effective October 7, 2011.

CENTER FOR COMMUNITY AND FAMILY SERVICES, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the Center disagreed with our findings that it did not maintain adequate financial records to support grant funds received from ACF and that it claimed costs that were unallowable. The Center did not comment on our finding that it did not maintain financial management systems and practices that complied with Federal requirements. Nothing in the Center's comments caused us to revise our findings.

OFFICE OF HEAD START COMMENTS

In written comments on our draft report, OHS agreed with our findings on unallowable costs and the related recommendation to refund \$967,387. Regarding the second recommendation, OHS stated that it would evaluate the allowability of the \$5,743,263 that we set aside and the potential disallowance action.

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APPENDIXES

A: FUNDS RECEIVED AND EXPENDITURES REPORTED FOR THE FIVE GRANTS
FOR THE PERIOD JULY 1, 2009, THROUGH MARCH 31, 2011

B: DISALLOWED AND SET-ASIDE COSTS

C: CENTER FOR COMMUNITY AND FAMILY SERVICES, INC., COMMENTS

D: OFFICE OF HEAD START COMMENTS

INTRODUCTION

BACKGROUND

Head Start Program

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major objectives of the program are to promote school readiness and enhance the social and cognitive development of children from families with low incomes by providing educational, health, nutritional, and social services. In 1994, the Head Start program was expanded to establish Early Head Start, which serves children from birth to 3 years of age. We refer to both programs as the Head Start program.

Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF), Office of Head Start (OHS), administers the Head Start program. Congress appropriated \$7.2 billion in fiscal year (FY) 2010 and \$7.6 billion in FY 2011 to fund Head Start's regular operations.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, provided an additional \$2.1 billion for the Head Start program during FYs 2009 and 2010. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for employees of Head Start grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

Center for Community and Family Services, Inc.

The Center for Community and Family Services, Inc. (the Center), a nonprofit corporation, is funded by various Federal and State agencies. The Center operated a Head Start program in West San Gabriel Valley, Los Angeles County, California. The Center's mission was to help low-income families break the cycle of poverty by achieving more economic self-sufficiency. The Center relinquished its Head Start funds effective October 7, 2011.

For the period July 1, 2009, through September 29, 2011, ACF awarded five grants to the Center, totaling approximately \$27.4 million. The grants consisted of \$23.4 million in Head Start funds to continue the Center's Head Start operations and \$4 million in Recovery Act funds to expand enrollment and to make cost-of-living adjustments and Head Start quality improvements. Of the \$27.4 million awarded, the Center received \$18.8 million in Head Start funds for the five grants for the period July 1, 2009, through March 31, 2011.¹

¹ ACF requested that we review funds received for the five grants for the period July 1, 2009, through March 31, 2011. ACF also requested that we review selected transactions for expenditures incurred from July 1, 2010, through March 31, 2011.

Federal Requirements for Grantees

Pursuant to 45 CFR § 74.27(a), nonprofit organizations that receive ACF funds must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations* (Office of Management and Budget Circular A-122).

Also, as Federal grantees, nonprofit organizations must maintain financial management systems pursuant to the standards at 45 CFR § 74.21. Grantees' financial management systems must provide for (1) accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program; (2) records that identify adequately the source and application of funds for HHS-sponsored activities; (3) effective control over and accountability for all funds, property, and other assets; and (4) accounting records, including cost accounting records, that are supported by source documentation.

Special Award Conditions

Pursuant to 45 CFR § 74.14, ACF may impose additional requirements if a grant recipient has a history of poor performance, is not financially stable, does not have a financial management system that meets Federal standards, has not conformed to the terms and conditions of a previous award, or is not otherwise responsible.

Effective February 7, 2011, ACF imposed special award conditions on the Center by requiring the Center to obtain ACF approval before withdrawing grant funds. The Center's board of directors determined that the special terms and conditions made it impossible for the Center to operate the Head Start program. As a result, the Center relinquished its Head Start funds effective October 7, 2011.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether the Center (1) maintained adequate financial records to support grant funds received from ACF, (2) claimed costs that were allowable, and (3) maintained financial management systems and practices that complied with Federal requirements.

Scope

We performed this review in response to a request from ACF. Specifically, ACF requested that we compare \$18,811,894 in Head Start and Recovery Act funds that the Center received for the five grants for the period July 1, 2009, through March 31, 2011, with the \$18,936,123 in total expenditures that the Center reported on the Financial Status Reports and Federal Financial Reports that it submitted to ACF during that period. Appendix A provides a summary of funds received and expenditures reported for the five grants.

ACF also requested that we review selected transactions for expenditures incurred from July 1, 2010, through March 31, 2011. As a result, we reviewed \$5,971,269 of the \$7,467,744² in grant expenditures that the Center reported for the five grants on the Financial Status Reports and Federal Financial Reports for that period.

We reviewed only internal controls directly related to our audit objectives.

We performed fieldwork at the Center's administrative offices in Pasadena and Carson, California, from April 2011 to January 2012.

Methodology

To accomplish our objectives, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed the terms and conditions of the Center's five grants;
- reviewed the Center's bylaws, minutes from board of directors meetings, financial policies and procedures, and human resource policies and procedures;
- reviewed the Center's audited consolidated financial statements for the years ended June 30, 2009, and June 30, 2010;
- reviewed the Center's chart of accounts, expenditure reports, and other financial reports to assess the adequacy of the Center's financial management systems and practices;
- interviewed the Center's board of directors, executive director, chief financial officer, Head Start deputy director, and personnel;
- reviewed Payment Management System³ (PMS) reports to determine the Center's total funds received (cash advances) for the five grants;
- compared grant funds that the Center received for the period July 1, 2009, through March 31, 2011, with the expenditures that it reported to ACF on the Financial Status Reports and Federal Financial Reports;

² This amount is part of the \$18,936,123 in Head Start and Recovery Act expenditures that the Center reported to ACF for the five grants for the period July 1, 2009, through March 31, 2011.

³ PMS is the key system that 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 grantees and Federal agencies that award grants.

- compared the expenditures recorded in the Center's general ledger with the expenditures that the Center reported to ACF on the Financial Status Reports and Federal Financial Reports;
- analyzed \$7,467,744 in expenditures for the period July 1, 2010, through March 31, 2011, that were recorded for the five grants in the Center's general ledger and judgmentally selected \$5,971,269 in large, unusual, and/or recurring transactions for claimed direct and indirect costs;
- reviewed the Center's supporting documentation (such as payroll records, vendors' invoices, proof of payment, and contracts) to determine the allowability of the selected transactions; and
- discussed the results of our review with ACF and Center officials.

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

FINDINGS AND RECOMMENDATIONS

The Center did not maintain adequate financial records to support grant funds received from ACF and claimed costs that were unallowable:

- Of the \$18,811,894 that the Center received for the period July 1, 2009, through March 31, 2011, the Center received \$197,827 in cash advances and reported to ACF \$73,543 in costs that were unallowable because they were not supported by its accounting records. In addition, the Center allocated to the Head Start program \$785,296 in costs that were not supported by adequate records; these costs were shared by Head Start and two State programs for which the Center received funding. We set aside the \$785,296 for resolution by OHS.
- Of the \$5,971,269 in selected transactions that we reviewed for the period July 1, 2010, through March 31, 2011, the Center claimed \$317,285 in costs that were allowable; \$696,017 in indirect, accrued, equipment, contractual, other direct, and vision insurance costs that were unallowable; and \$4,957,967 in salary and wage and related fringe benefit costs that were not adequately supported. We set aside the \$4,957,967 for resolution by OHS.

In total, we determined that \$967,387 was unallowable, and we set aside \$5,743,263 for resolution by OHS. Appendix B provides a summary of the Center's costs that we either disallowed or set aside.

In addition, the Center did not maintain financial management systems and practices that complied with Federal requirements. Specifically, the Center did not maintain a financial management system that safeguarded assets, did not always maintain Federal funds in insured bank accounts, and did not maintain property management and procurement standards in accordance with Federal requirements.

THE CENTER DID NOT MAINTAIN ADEQUATE FINANCIAL RECORDS TO SUPPORT GRANT FUNDS RECEIVED

For the period July 1, 2009, through March 31, 2011, the Center received \$197,827 in cash advances that were unallowable and reported to ACF \$73,543 in costs that were unallowable because they were not supported by its accounting records. In addition, the Center allocated to the Head Start program \$785,296 in shared costs that were not supported by adequate records. We set aside the \$785,296 for resolution by OHS.

Cash Advances in Excess of Reported Costs Not Supported by Accounting Records

Federal regulations state that grantees' financial management systems must provide for accounting records, including cost accounting records, that are supported by source documentation (45 CFR § 74.21(b)(7)). In addition, Federal regulations state that cash advances to a grantee organization must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the grantee organization in carrying out the purpose of the approved program or project to the extent reasonably feasible (45 CFR § 74.22(b)(2)).

Of the \$18,811,894 in cash advances that the Center received for the five grants, \$197,827 was in excess of reported costs and not supported by accounting records. The Center received \$12,921,066 in cash advances for three of the five grants; however, it reported to ACF \$12,723,239 in incurred expenditures. The Center was not able to provide documentation to support the \$197,827 difference between the total amount received and the total amount reported in expenditures; it did not limit its cash advances to the minimum amounts needed. Therefore, we determined that the \$197,827 was unallowable.

Reported Costs Not Supported by Accounting Records

Federal regulations state that grantees must maintain financial management systems that provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project (45 CFR § 74.21(b)(1)); records that identify adequately the source and application of funds for HHS-sponsored activities (45 CFR § 74.21(b)(2)); effective control over and accountability for all funds, property, and other assets (45 CFR § 74.21(b)(3)); and accounting records, including cost accounting records, that are supported by source documentation (45 CFR § 74.21(b)(7)).

Of the \$18,936,123 in total expenditures that the Center reported for the five grants, \$73,543 was not supported by accounting records. Specifically, the Center reported to ACF on its Financial Status Report \$11,256,277 in expenditures for one grant. This amount should have represented

expenditures incurred under the grant and recorded in the Center's general ledger. However, the Center's general ledger accounted for only \$11,182,734 in expenditures. The Center was not able to account for the \$73,543 difference between the total amount reported and the total amount recorded in the general ledger. Therefore, we determined that the \$73,543 was unallowable.

Shared Costs Not Supported by Adequate Records

Federal regulations state that grantees must maintain financial management systems that provide for records that identify adequately the source and application of funds for HHS-sponsored activities (45 CFR § 74.21(b)(2)). In addition, Federal cost principles (2 CFR part 230, Appendix A) state that a cost is allocable to a Federal award if it is incurred specifically for the award (§ A.4.a.(1)) and benefits both the award and other work and can be distributed in reasonable proportion to the benefits received (§ A.4.a.(2)).

Of the \$18,862,580 that the Center recorded in its general ledger for the five grants, \$785,296 in shared costs⁴ was not supported by records that identified adequately the source and application of funds. The Center received funding for the Head Start program and two State programs: the California State Preschool Program (CSPP) and the Child Care Food Program (CCFP). The Center deducted the State revenues (CSPP and CCFP) from the total shared costs incurred for the three programs and allocated the remaining shared costs to the Head Start program. The Center included this amount in the total expenditures reported on the Financial Status Report and the Federal Financial Report. Because the Center allocated \$785,296 in shared costs to two of its five Head Start grants using this methodology, it was not able to identify the specific costs that it allocated to these two grants. The Center was not able to provide documentation to support that these costs were distributed in reasonable proportion to the benefits received for the two Head Start grants. Therefore, we set aside the \$785,296 for resolution by OHS.

THE CENTER CLAIMED UNALLOWABLE AND INADEQUATELY SUPPORTED COSTS

For the period July 1, 2010, through March 31, 2011, the Center claimed \$696,017 in indirect, accrued, equipment, contractual, other direct, and vision insurance costs that were unallowable and \$4,957,967 in salary and wage and related fringe benefit costs that were not adequately supported. We set aside the \$4,957,967 for resolution by OHS.

Unallowable Indirect Costs

Federal cost principles (2 CFR part 230, Appendix A, § E.2.c.) state 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 FY.

The Center claimed \$402,837 in unallowable indirect costs. The Center did not submit a new indirect cost proposal to the cognizant agency, the HHS Division of Cost Allocation (DCA), within 6 months after the close of the FY ended June 30, 2010. On September 29, 2011, DCA

⁴ Shared costs are costs allocated between two or more programs.

informed the Center that its provisional indirect cost rate had been rescinded because the Center had not submitted an indirect cost proposal for its FY beginning July 1, 2009. In addition, DCA instructed awarding agencies to take steps to recover amounts paid for indirect costs for the FY beginning July 1, 2009, and subsequent periods.

Unallowable Accrued Costs

Federal cost principles (2 CFR part 230, Appendix A, §§ A.2.a. and g.) state that a cost is allowable under an award if it is reasonable for the performance of the award, allocable to it, and adequately documented.

The Center claimed \$207,237 in accrued costs that were not documented and were therefore unallowable. For example, for one accrued cost, the Center's general ledger referred to the cost as "Head Start year end accruals 7/31/2010." Without documentation, there was no way to determine the type of costs incurred.

Unallowable Equipment Costs

Federal cost principles (2 CFR part 230, Appendix A, §§ A.2.a. and g.) state that a cost is allowable under an award if it is reasonable for the performance of the award, allocable to it, and adequately documented.

The HHS Grants Policy Statement states that the grantee must obtain prior approval for a change in scope that includes a purchase of a unit of general-purpose or special-purpose equipment exceeding \$25,000 (part II-53, Change in Scope). Further, the HHS Grants Policy Statement states that failure to obtain required prior approval may result in the disallowance of costs, termination of the award, or other enforcement action within the awarding agency's authority (part II-56, Requesting OPDIV Prior Approval).

The Center claimed \$55,570 in unallowable equipment costs. Specifically, the Center claimed the costs of two vehicles for which it did not have supporting documentation and/or prior approval from ACF, the awarding agency. The cost of each vehicle exceeded \$25,000.

Unallowable Contractual Costs

Federal cost principles (2 CFR part 230, Appendix A, §§ A.2.a. and g.) state that a cost is allowable under an award if it is reasonable for the performance of the award, allocable to it, and adequately documented. In addition, Federal cost principles (2 CFR part 230, Appendix B, paragraph 37) state that the reasonableness and allowability of costs for professional services are determined by multiple factors, including, among others, (1) the nature and scope of the services provided in relation to the service required; (2) the necessity of contracting for the service, considering the nonprofit organization's capability in the particular area; (3) whether the service can be performed more economically by employees rather than contractors; and (4) the adequacy of the contractual agreement (e.g., description of the service, estimate of the time required, rate of compensation, and termination provisions).

The Center claimed \$17,986 in contractual costs for professional services that were not adequately documented and were therefore unallowable. Specifically, the Center provided invoices and proof of payment; however, it did not provide contracts for \$11,156 in professional services costs that it claimed during our audit period for hiring temporary employees and for obtaining legal services and mental health services. In addition, the Center claimed \$6,830 in contractual costs for a community partnership and professional services that were not adequately supported by source documentation. The Center provided invoices and contracts for these costs; however, it did not provide proof of payment to support that these costs were incurred.

Unallowable Other Direct Costs

Federal cost principles (2 CFR part 230, Appendix A, §§ A.2.a. and g.) state that a cost is allowable under an award if it is reasonable for the performance of the award, allocable to it, and adequately documented.

The Center claimed \$7,166 in other direct costs that were not adequately documented and were therefore unallowable. Specifically, the Center claimed \$3,556 in training costs and \$1,877 in repair and maintenance costs for which the Center had no supporting documentation. In addition, the Center claimed \$837 in training costs and \$896 in utilities costs that were not adequately supported by source documentation. The Center provided invoices for these costs; however, it did not provide proof of payment to support that these costs were incurred.

Unallowable Vision Insurance Costs

Federal regulations state that grantees must maintain financial management systems that provide for effective control over and accountability for all funds, property, and other assets (45 CFR § 74.21(b)(3)).

The Center did not maintain financial management systems that provided for effective control over and accountability for vision insurance costs. Specifically, the Center claimed \$5,221 in vision insurance costs that it did not incur and were therefore unallowable. In addition, a Center official stated that the vision insurance was voluntary and fully paid by the Center's employees.

Inadequately Supported Salaries and Wages

Federal cost principles (2 CFR part 230, Appendix A, § A.2.g.) state that to be allowable under an award, costs must be adequately documented.

Federal cost principles (2 CFR part 230, Appendix B, § 8.m.(1)) state: "Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports" In addition, § 8.m.(2) states: "Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards."

Federal cost principles (2 CFR part 230, Appendix B, § 8.m.(2)(a)) specify that personnel activity reports "... must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (*i.e.*, estimates determined before the services are performed) do not qualify as support for charges to awards."

The Center did not adequately document \$3,732,926 in costs for salaries and wages claimed for the five grants. The Center charged salaries and wages based on documented payrolls approved by responsible officials of the Center. After reviewing the Center's payroll records, we determined that the Center incurred these costs. However, the Center did not maintain personnel activity reports reflecting the actual distribution of activity of each employee whose compensation was claimed under the grants. Instead, the Center supported its costs for salaries and wages with payroll records reflecting budget estimates determined when an employee was hired or promoted. Budget estimates determined before the services were performed do not qualify as adequate supporting documentation for salaries and wages claimed under the grants. In addition, the Center did not always maintain adequate documentation showing the most recent rate of pay of each employee. As a result, we set aside \$4,957,967 for resolution by OHS, consisting of \$3,732,926 in costs for salaries and wages and \$1,225,041 in costs for related fringe benefits.

THE CENTER DID NOT MAINTAIN FINANCIAL MANAGEMENT SYSTEMS AND PRACTICES THAT COMPLIED WITH FEDERAL REQUIREMENTS

The Center did not maintain financial management systems and practices that complied with Federal requirements. Specifically, the Center did not maintain a financial management system that safeguarded assets, did not always maintain Federal funds in insured bank accounts, and did not maintain property management and procurement standards in accordance with Federal requirements.

Safeguarding of Assets

Federal regulations state that grantees must maintain financial management systems that provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project (45 CFR § 74.21(b)(1)) and effective control over and accountability for all funds, property, and other assets (45 CFR § 74.21(b)(3)). Grantees must adequately safeguard all such assets and ensure that they are used solely for authorized purposes.

The Center did not maintain a financial management system that safeguarded assets or provided for accurate, current, and complete disclosure of financial results and effective control over and accountability for all funds, property, and other assets. Specifically, the Center did not (1) perform bank reconciliations, (2) maintain prenumbered checks, and (3) adequately segregate duties for timekeeping and payroll. A Center official stated that any individual in the payroll department may process timesheets, input exempt staff hours into the payroll system, electronically submit information to the contractor for the processing of payroll, and separate payroll checks for distribution.

Insured Bank Accounts

Federal regulations state that advances of Federal funds must be deposited and maintained in insured accounts whenever possible (45 CFR § 74.22(i)(2)). The Federal Deposit Insurance Corporation (FDIC) provides maximum insurance coverage of \$250,000 for deposits with an FDIC-insured financial institution.

The Center did not always deposit or maintain Federal funds in insured accounts. For example, the Center maintained a balance of \$806,635 for 14 days from November 30 through December 14, 2010, at a single financial institution. Because this deposit exceeded \$250,000, it was not fully insured by FDIC and was therefore at risk.

Property Management Standards

Federal regulations state that the grantee's property management standards for equipment acquired with Federal funds and federally owned equipment must include accurate equipment records that contain a description of the equipment, an identification number, the source of the equipment (including award number), the acquisition date and cost, the condition of the equipment, and ultimate disposition data (45 CFR § 74.34(f)(1)). In addition, the grantee must take a physical inventory of equipment and reconcile the results with equipment records at least once every 2 years (45 CFR § 74.34(f)(3)) and must maintain a control system to ensure adequate safeguards to prevent loss, damage, or theft of equipment (45 CFR § 74.34(f)(4)).

The Center did not maintain property management standards in accordance with Federal requirements. Specifically, the Center did not maintain accurate equipment records or perform a physical inventory of all equipment. For example, the Center did not include in its equipment records playground equipment with a useful life of more than 1 year and a purchase price of \$500 or more, as required by its property management policies. Also, the Center's equipment records for computers used for the Head Start program were missing required information, such as a description of the equipment, the source of the equipment, acquisition cost, and condition. Lastly, the Center did not conduct physical inventories of computers and other equipment costing \$500 or more that were purchased with Head Start funds. Lack of property management and a control system may result in loss, damage, or theft of equipment.

Procurement Standards

The Center did not maintain procurement standards in accordance with Federal requirements. Specifically, the Center's written procurement procedures did not meet the minimum Federal requirements, and the Center's contracts did not always contain required provisions.

Written Procurement Procedures

Federal regulations state that grantees must establish written procurement procedures that provide for, at a minimum, avoiding the purchase of unnecessary items, analyzing lease and purchase alternatives, and soliciting goods and services (45 CFR § 74.44(a)).

The Center's written procurement procedures did not include all of the requirements for the solicitation of goods and services, such as a description of technical requirements in terms of functions to be performed or performance required.

Contract Provisions

For contracts in excess of \$100,000, Federal regulations state that grantees must include provisions that allow for remedies in instances in which a contractor violates or breaches the contract terms (45 CFR § 74.48(a)). All such contracts also must contain provisions for termination by the grantee, including the manner by which termination will be effected and the basis for settlement. In addition, those contracts must describe conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor (45 CFR § 74.48(b)). Lastly, all such contracts must include a provision to the effect that the HHS awarding agency, the U.S. Comptroller General, or any of their duly authorized representatives must have access to any books, documents, papers, and records of the contractor that are directly pertinent to a specific program for the purpose of making audits, examinations, excerpts, and transcriptions (45 CFR § 74.48(d)).

The Center did not include the required provisions in its contracts in excess of \$100,000. For example, one contract for \$370,520 did not include provisions that allowed for (1) administrative, contractual, or legal remedies in instances in which a contractor violated or breached the terms and provisions or (2) termination by the recipient, including the manner by which termination would be effected and the basis for settlement. Lack of required contract provisions may result in the Center's inability to adequately safeguard its funds if a contract is terminated.

RECOMMENDATIONS

We recommend that OHS:

- require the Center to refund \$967,387 to the Federal Government and
- work with the Center to determine the allowability of \$5,743,263 that we set aside and ensure that the Center refunds any amount that is determined to be unallowable.

We are not making recommendations to address the Center's noncompliance with Federal requirements for financial management systems and practices because the Center relinquished its Head Start funds effective October 7, 2011.

CENTER FOR COMMUNITY AND FAMILY SERVICES, INC., COMMENTS

In written comments on our draft report, the Center disagreed with our findings that it did not maintain adequate financial records to support grant funds received from ACF and that it claimed costs that were unallowable:

- The Center stated that it had submitted to ACF annual budgets providing a detailed explanation of the Center's intended use of Recovery Act funds and that ACF approved its budget before it used the Recovery Act funds.
- The Center stated that it had submitted to ACF an annual independent audit report, which did not refer to misuse, inappropriate use, or unallowable use of Recovery Act funds. The Center also stated that ACF accepted the audit report without challenge or substantial findings.
- The Center stated that our report noted several programmatic and financial challenges that were clearly under the direction of the previous Head Start administrator, who was terminated because of poor performance and negligent activity, and that the Center was now aware of additional discrepancies.

The Center did not comment on our finding that it did not maintain financial management systems and practices that complied with Federal requirements. We have included the Center's comments in their entirety as Appendix C.

OFFICE OF INSPECTOR GENERAL RESPONSE

Although the Center may have submitted annual budgets and an audit report to ACF, the Center is still required to comply with Federal regulations related to the use of Head Start and Recovery Act funds. We continue to maintain that the Center did not have adequate financial records to support grant funds received from ACF and claimed costs that were unallowable and inadequately supported.

OFFICE OF HEAD START COMMENTS

In written comments on our draft report, OHS agreed with our findings on unallowable costs and the related recommendation to refund \$967,387. Regarding the second recommendation, OHS stated that it would evaluate the allowability of the \$5,743,263 that we set aside and the potential disallowance action. OHS's comments are included in their entirety as Appendix D.

APPENDIXES

**APPENDIX A: FUNDS RECEIVED AND EXPENDITURES REPORTED FOR THE
FIVE GRANTS FOR THE PERIOD JULY 1, 2009, THROUGH MARCH 31, 2011**

Grant Type	Grant Period	Funds Received 07/01/09–03/31/11	Expenditures Reported 07/01/09–03/31/11
Head Start Operations	08/01/09–07/31/10	\$11,289,343	\$11,256,277
Head Start Operations	08/01/10–07/31/11	5,734,727	5,604,421
Head Start Recovery Act Expansion	11/01/09–09/29/10	938,400	846,000
Head Start Recovery Act Expansion	09/30/10–09/29/11	156,101	608,463
Head Start Recovery Act Cost-of-Living Adjustment and Quality Improvement	07/01/09–09/30/10	693,323	620,962
Total		\$18,811,894	\$18,936,123

APPENDIX B: DISALLOWED AND SET-ASIDE COSTS

July 1, 2009, Through March 31, 2011	Disallowed	Set Aside
Cash Advances in Excess of Reported Costs Not Supported by Accounting Records	\$197,827	
Reported Costs Not Supported by Accounting Records	73,543	
Shared Costs Not Supported by Adequate Records		\$785,296
Subtotal	\$271,370	\$785,296
July 1, 2010, Through March 31, 2011	Disallowed	Set Aside
Unallowable Costs		
Indirect Costs	\$402,837	
Accrued Costs	207,237	
Equipment Costs	55,570	
Contractual Costs	17,986	
Other Direct Costs <i>Training (\$4,393)</i> <i>Repair and Maintenance (\$1,877)</i> <i>Utilities (\$896)</i>		
Total Other Direct Costs	7,166	
Vision Insurance Costs	5,221	
Inadequately Supported Salaries and Wages		\$3,732,926
Fringe Benefits		1,225,041
Subtotal	\$696,017	\$4,957,967
TOTAL	\$967,387	\$5,743,263

APPENDIX C: CENTER FOR COMMUNITY AND FAMILY SERVICES, INC., COMMENTS



Center for Community and Family Services, Inc.
12627 S. Willowbrook Avenue
Compton, CA 90222
(310) 537-7570

January 29, 2013

Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region IX
Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

Re: Report Number: A-09-11-01006
Center for Community and Family Services, Inc
Draft Report – Agency Response

Dear Ms. Ahlstrand:

The Center for Community and Family Services, Inc would like to respond to the following challenges noted by your department regarding the use of Head Start and Recovery Act funds in accordance with Federal Requirements. Your department noted in the Summary findings;

- The Center for Community and Family Services, Inc did not maintain adequate records to support grant funds received from ACF and claimed costs that were unallowable:

The Center for Community and Family Services, Inc (CCFS) respectfully disagrees with your preliminary findings. CCFS disagrees with your findings on expending Recovery Act Funds based on the following information, which was submitted to ACF prior to expending any Recovery Act Funds. The Center for Community and Family Services, Inc submitted to ACF annual budgets, which provided a detailed explanation of our intended use of the Recovery Act funds. ACF approved our budget prior to the use of Recovery Act funds. CCFS then implemented a program and financial plan of action in accordance to the budget approved by ACF for intended use of the Recovery Act Funds. In addition, an annual independent audit was submitted to ACF. The annual audit, completed by outside professional sources, did not state misuse, inappropriate use, or unallowable use of Recovery Act Funds. The CCFS annual audit

CCFS Response to OIG Report
January 29, 2013
Page 2 of 2

was submitted to ACF for review. CCFS received no documentation from ACF stating that there were any concerns from our annual audit report. The audit report was accepted by ACF without challenge or substantial findings. The audit and our annual budget provide specific use of Recovery Act funds, and they were accepted by ACF without challenge.

In addition, the Head Start program was reviewed on a periodic basis by the staff of the Head Start regional office as well as independent contractors approved by the Head Start regional office. At no time did any of the findings or deficiencies noted in your report was brought to the attention of CCAFS administrative staff. On the contrary, CCAFS program was given high marks for its operation efficiency.

Your report concentrates on the negative. It does not mention the efforts CCAFS made in the development and maintenance of the program. Specifically, it does not discuss the cost incurred and paid by CCAFS is providing two Head Start sites without costs to the Head Start program. Your report also fails to mention that ACF realized over a \$1,000,000 gain in the form of proceeds from the sale of two CCFS properties. This gain was over \$1,000,000 above and beyond the amount that was invested in the property through grants to the Head Start Program.

However, prior to the commencement of your auditing of our Head Start program, the Head Start administrator was terminated due to poor performance and negligent activity. The agency conducted its own evaluation of the previous Head Start administrator and determined that several major program violations had occurred, thus leading to the termination of the previous Head Start administration. Your report noted several programmatic and financial challenges that were clearly under the direction of the previous Head Start administration and CCFS is now aware of additional discrepancies that were clearly under the auspices of the previous Head Start administrator. Thus, based on the acceptance of our annual Head Start budgets by ACF, the acceptance of annual independent audits accepted by ACF and the negligence of our previous Head Start administrator, the Center for Community and Family Services, Inc submits to you that misuse of Recovery Act funds did not occur nor were there any challenges submitted to the Board of Directors or the Executive Director. CCFS was not permitted to draw down any Head Start funds without prior approval from Head Start regional personnel. CCFS was required to submit detailed information to ACF, via electronic mail which demonstrated our use of Head Start Funds. Upon receiving electronic authorization from Head Start, we were permitted to draw down funds based upon their review of our financial reports. Again, we cannot accept the results of your findings, due to the fact we acted in accordance to our Head Start representatives, liaisons, and the previous Head Start administrator. CCFS is more than willing to meet face to face with documentation, electronic documentation, agency reports, annual audits, and interviews to sustain our position.

Center for Community and Family Services, Inc.

APPENDIX D: OFFICE OF HEAD START COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

ADMINISTRATION FOR
CHILDREN & FAMILIES

Refer to: 09CH0044

Region IX
90 7th Street, Suite 9-100
San Francisco, CA 94103

DATE: April 25, 2013

TO: Lori A. Ahlstrand
Regional Inspector General for Audit Services

FROM: Jan Len /Jan Len/
Regional Program Manager, Region IX

SUBJECT: Center for Community and Family Services, Inc., Did Not Expend Head Start and Recovery Act Funds in Accordance With Federal Requirements (A-09-11-01006)

We have carefully reviewed and agree with the findings provided by the Office of Inspector General's (OIG) report on Center for Community and Family Services, Inc. (CCFS) expenditures for Head Start and Recovery Act Funds received by CCFS from the period July 1, 2009, through March 31, 2011. We agree with OIG's finding and recommendation for CCFS to return the unallowable costs of \$967,387 and we will move to disallow the stated costs. OIG also set aside costs in the amount of \$5,743,263 to be resolved by the Administration of Children and Families (ACF). We will evaluate these "questioned" costs found by OIG for allowability and potential disallowance action.

We thank you for completing this review on CCFS. ACF requested OIG to perform a review of Head Start (HS) expenditures because of the serious risk of the allowability of claimed costs. ACF also requested a review of the discrepancy among the amount of HS funds received by CCFS, the total expenditures reported on the Financial Status Reports, and the Federal Financial Reports submitted to ACF during the above period.

The Department of Health and Human Services, Division of Cost Allocation (DCA) completed follow-up with CCFS to obtain an indirect cost proposal for the fiscal year beginning July 1, 2009. In the absence of a response, DCA issued a notification in September 2011 to CCFS and Awarding Agencies that indirect costs from July 1, 2009 and forward could not be claimed, specifically "indirect costs should not be provided to this organization." Part of the unallowable costs identified by OIG was their indirect costs charged to the grants. CCFS did not submit an indirect cost proposal despite continued follow-up by ACF.

cc:

Ann Linehan, Deputy Director, Office of Head Start
Martin Tom, Grants Management Officer, Region IX, Office of Grants Management
Yolanda Wise, Head Start Program Specialist, Office of Head Start