May 21, 2012

TO: Yvette Sanchez Fuentes
    Director, Office of Head Start
    Administration for Children and Families

FROM: /Kay L. Daly/
      Assistant Inspector General for Audit Services

SUBJECT: Results of Limited Scope Review at Childcare Learning Centers, Inc.
         (A-01-11-02506)

Attached, for your information, is an advance copy of our final report to determine whether costs claimed by Childcare Learning Centers, Inc. (CLC), were allowable under the terms of the Head Start and Recovery Act grants and applicable Federal regulations. We will issue this report to CLC within 5 business days. This review was part of a series of reviews planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Michael J. Armstrong, Regional Inspector General for Audit Services, at (617) 565-2689 or through email at Michael.Armstrong@oig.hhs.gov. Please refer to report number A-01-11-02506.

Attachment
May 25, 2012

Report Number:  A-01-11-02506

Ms. Barbara Garvin-Kester
Chief Executive Officer
Childcare Learning Centers, Inc.
64 Palmer’s Hill Road
Stamford, CT 06902

Dear Ms. Garvin-Kester:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled Results of Limited Scope Review at Childcare Learning Centers, Inc. 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.


If you have any questions or comments about this report, please do not hesitate to call me, or contact George Nedder, Audit Manager, at (617) 565-3463 or through email at George.Nedder@oig.hhs.gov. Please refer to report number A-01-11-02506 in all correspondence.

Sincerely,

/Michael J. Armstrong/
Regional Inspector General
for Audit Services

Enclosure
Direct Reply to HHS Action Official:

Ms. Louise Eldridge  
Program Manager  
Office of Head Start  
Regional 1  
JFK Federal Bldg  
Room 2000  
Boston, MA  02204

cc:

Ms. Ann Linehan  
Deputy Director  
Office of Head Start  
Portals Building, 8th Floor  
1250 Maryland Avenue, SW  
Washington DC  20024
RESULTS OF LIMITED SCOPE REVIEW AT CHILDCARE LEARNING CENTERS, INC.
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 http://oig.hhs.gov

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

Head Start Program

Pursuant to the Improving Head Start for School Readiness Act of 2007, P.L. No. 110-134 (Head Start Act), 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 available to children and families. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF) administers the Head Start program.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, ACF received $1 billion for Head Start, 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. ACF combined Recovery Act funds with a fiscal year 2009 Head Start appropriation to provide an additional $356 million to award all Head Start grantees a nearly 5 percent cost-of-living increase and bolster training and technical assistance activities.

Childcare Learning Centers, Inc.

Childcare Learning Centers, Inc. (CLC), a not-for-profit agency, provides childcare and early childhood education to approximately 1,000 children and their families in and around Stamford, Connecticut. CLC’s principal programs include Early Head Start, Head Start, Child Development, and School Readiness. Families pay for programs per a sliding scale based upon income, with approximately 13 percent receiving free services. CLC is funded primarily through Federal and State grants and program fees. We reviewed $4,894,721 of Head Start costs claimed, including $115,049 in Recovery Act funds, that CLC received from November 1, 2008, through October 31, 2011.

OBJECTIVE

Our objective was to determine whether costs claimed by CLC were allowable under the terms of the Head Start and Recovery Act grants and applicable Federal regulations.

SUMMARY OF FINDINGS

Of the $4,894,721 of Head Start costs claimed by CLC that we reviewed, $4,331,662 were allowable under the terms of the Head Start and Recovery Act grants and applicable Federal regulations. However, we determined that $563,059 in indirect costs were unallowable, because CLC did not obtain approved indirect cost rates during the 3-year period under review. CLC also deposited its operating funds, which included Federal Head Start grant funds, into an uninsured bank account.
These deficiencies occurred because CLC did not establish policies and procedures related to (1) obtaining approved indirect cost rates and (2) adequately safeguarding and maintaining Federal funds in insured bank accounts.

RECOMMENDATIONS

We recommend that CLC:

- refund $563,059 in unallowable indirect expenses charged to Federal Head Start grants,
- establish policies and procedures related to (1) obtaining approved indirect cost rates and (2) adequately safeguarding and maintaining Federal funds in insured bank accounts.

CHILDCARE LEARNING CENTERS, INC., COMMENTS

In written comments on our draft report, CLC agreed with our findings and described its steps for addressing our recommendations.

CLC’s comments are included in their entirety in the Appendix.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>BACKGROUND</td>
<td>1</td>
</tr>
<tr>
<td>Head Start Program</td>
<td>1</td>
</tr>
<tr>
<td>Childcare Learning Centers, Inc.</td>
<td>1</td>
</tr>
<tr>
<td>OBJECTIVE, SCOPE, AND METHODOLOGY</td>
<td>2</td>
</tr>
<tr>
<td>Objective</td>
<td>2</td>
</tr>
<tr>
<td>Scope</td>
<td>2</td>
</tr>
<tr>
<td>Methodology</td>
<td>2</td>
</tr>
<tr>
<td>FINDINGS AND RECOMMENDATIONS</td>
<td>4</td>
</tr>
<tr>
<td>FEDERAL HEAD START COSTS CLAIMED</td>
<td>4</td>
</tr>
<tr>
<td>Indirect Costs Claimed</td>
<td>4</td>
</tr>
<tr>
<td>COMPLIANCE WITH FEDERAL GRANT REQUIREMENTS</td>
<td>4</td>
</tr>
<tr>
<td>Adequately Safeguarding Federal Funds</td>
<td>4</td>
</tr>
<tr>
<td>CAUSE OF DEFICIENCIES</td>
<td>5</td>
</tr>
<tr>
<td>RECOMMENDATIONS</td>
<td>5</td>
</tr>
<tr>
<td>OTHER MATTERS</td>
<td>5</td>
</tr>
<tr>
<td>Non-Federal Share</td>
<td>5</td>
</tr>
<tr>
<td>CHILDCARE LEARNING CENTERS, INC., COMMENTS</td>
<td>6</td>
</tr>
<tr>
<td>APPENDIX</td>
<td></td>
</tr>
<tr>
<td>CHILDCARE LEARNING CENTERS, INC., COMMENTS</td>
<td></td>
</tr>
</tbody>
</table>
INTRODUCTION

BACKGROUND

Head Start Program

Pursuant to the Improving Head Start for School Readiness Act of 2007, P.L. No. 110-134 (Head Start Act), 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 available to children and families. Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF) administers the Head Start program.

The Head Start program provides grants to local public and private agencies to provide economically disadvantaged children and families with comprehensive child development services with a special focus on helping preschoolers develop early reading and math skills. Head Start programs engage parents in their children’s learning and emphasize parental involvement in the administration of local Head Start programs.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, ACF received $1 billion for Head Start, 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. ACF combined Recovery Act funds with a fiscal year (FY) 2009 Head Start appropriation to provide an additional $356 million to award all Head Start grantees a nearly 5 percent cost-of-living increase and bolster training and technical assistance activities.

Federal regulations (45 CFR § 74.21(b)) require that each grantee’s financial management system provides (1) accurate, current, and complete disclosure of the financial results of each program; (2) records that adequately identify the source and application of Federal funds; (3) effective control over and accountability for all funds, property, and other assets to ensure they are used solely for authorized purposes; (4) procedures for determining the reasonableness, allocability, and allowability of costs; and (5) accounting records that are supported by source documentation.

Additionally, pursuant to 2 CFR § 230, App. A, 2, costs must be reasonable for the performance of the award and conform to any limitations set forth in the award. Costs shared by multiple programs are allocable to an award in accordance with the relative benefits received, pursuant to 2 CFR § 230, App. A, 4.

Childcare Learning Centers, Inc.

Childcare Learning Centers, Inc. (CLC), a not-for-profit agency, provides childcare and early childhood education to approximately 1,000 children and their families in and around Stamford, Connecticut. CLC’s principal programs include Early Head Start, Head Start, Child Development, and School Readiness. Families pay for programs per a sliding scale based upon
income, with approximately 13 percent receiving free services. CLC is funded primarily through Federal and State grants and program fees. For the period November 1, 2008, through October 31, 2011, ACF awarded $4,894,721 to CLC for its Head Start program, including $4,779,672 in Head Start funds to provide services to 193 children and $115,049 in Recovery Act Head Start funds for cost-of-living adjustments and Head Start quality improvements.

In a 2007 limited-distribution report of CLC’s Federal Head Start program, we identified internal control weaknesses in CLC’s accounting and administrative systems. We reported the audit findings to ACF and CLC’s management.

This review is part of a series of reviews planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether costs claimed by CLC were allowable under the terms of the Head Start and Recovery Act grants and applicable Federal regulations.

Scope

We reviewed $4,894,721 of Head Start costs claimed, including $115,049 in Recovery Act funds, that CLC received from November 1, 2008, through October 31, 2011. We did not perform an overall assessment of CLC’s internal control structure. Therefore, we reviewed only the internal controls that pertained directly to our objective.

We performed fieldwork at CLC’s central office in Stamford, Connecticut, from June 9 through November 18, 2011.

Methodology

To accomplish our objective, we:

- reviewed Federal laws, regulations, and policy information for Federal grant awards and the Head Start program;
- reviewed and analyzed CLC’s audited financial statements for FYs 2008, 2009, and 2010;
- reviewed and analyzed CLC’s cash position to determine its ability to meet short-term obligations;
- reviewed CLC’s bylaws, board of director meeting minutes, financial policies and procedures, and human resource policies and procedures;
• reviewed CLC’s methods and schedules for budgeting and recording Head Start expenses, indirect costs, and non-Federal matching funds;

• reviewed CLC’s chart of accounts and analyzed financial reports produced by CLC’s accounting system;

• traced CLC’s Federal Head Start drawdowns to its Financial Status Report (SF-269);

• reviewed CLC’s procedures for calculating Federal Head Start cash drawdown requests and minimizing the requested amount;

• traced the non-Federal share that CLC claimed from State Head Start funds, donated classroom space, and volunteer activities to source documentation;

• reviewed CLC’s accounting system and related policies and procedures to assess internal controls;

• reviewed CLC’s procedures for allocating costs shared by multiple programs;

• reviewed CLC’s procedures for allocating indirect costs and traced indirect costs allocated to the Federal Head Start grants;

• reviewed employee timecards and verified that timecards were accurate and approved by a supervisor;

• traced employee salary allocations to CLC’s payroll allocation schedule;

• traced Head Start payroll reports to payroll expenses charged to the Head Start grant;

• reviewed senior managements’ resumes to determine their qualifications and experience;

• reviewed CLC’s whistleblower policies and procedures;

• reviewed and verified senior managements’ compensation for compliance with Federal Head Start compensation cap requirements;

• reviewed a sample of monthly bank reconciliations for completeness and timeliness;

• interviewed CLC’s senior management and financial staff; and

• reviewed CLC’s actions related to prior Federal Head Start audit findings and recommendations.
We conducted our review 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 objective.

FINDINGS AND RECOMMENDATIONS

Of the $4,894,721 of Head Start costs claimed by CLC that we reviewed, $4,331,662 were allowable under the terms of the Head Start and Recovery Act grants and applicable Federal regulations. However, we determined that $563,059 in indirect costs were unallowable, because CLC did not obtain approved indirect cost rates during the 3-year period under review. CLC also deposited its operating funds, which included Federal Head Start grant funds, into an uninsured bank account.

These deficiencies occurred because CLC did not establish policies and procedures related to (1) obtaining approved indirect cost rates and (2) adequately safeguarding and maintaining Federal funds in insured bank accounts.

FEDERAL HEAD START COSTS CLAIMED

Indirect Costs Claimed

Federal regulations define direct costs as those that can be identified specifically with a particular award, project, or service of an organization (2 CFR § 230, App. A, B.1) and indirect costs as those that have been incurred for common or joint objectives and cannot be identified readily with a particular final cost objective (2 CFR § 230, App. A, C.1).

Pursuant to HHS Grants Policy Statement, page I-23, HHS will not reimburse indirect costs unless the recipient has an indirect cost rate covering the applicable activities and period. Indirect cost rates are negotiated by HHS’s Division of Cost Allocation or another Federal agency with cognizance for indirect cost rate negotiations.

CLC did not obtain an approved indirect cost rate to allocate certain general administrative costs that benefited more than one program. Rather, CLC used a methodology that was not approved by a Federal agency with cognizance for indirect cost rate negotiations to charge $175,866 for grant year (GY) 2009, $169,672 for GY 2010, and $217,521 for GY 2011 to the Federal Head Start program. As a result, CLC claimed $563,059 in unallowable indirect costs.

COMPLIANCE WITH FEDERAL GRANT REQUIREMENTS

Adequately Safeguarding Federal Funds

Federal regulations (45 CFR § 74.21(b)(3)) require grant recipients to adequately safeguard all assets and assure they are used solely for authorized purposes. Advances of Federal funds shall
be deposited and maintained in insured accounts whenever possible, pursuant 45 CFR § 74.22(i)(2).

CLC deposited its operating funds, which included Federal Head Start funds, overnight into a bank account that was not insured by the Federal Deposit Insurance Corporation. As a result, CLC’s Federal Head Start funds were not adequately safeguarded and maintained in an insured account.

**CAUSE OF DEFICIENCIES**

These deficiencies occurred because CLC did not establish policies and procedures related to (1) obtaining approved indirect cost rates and (2) adequately safeguarding and maintaining Federal funds in insured bank accounts. We had previously reported these deficiencies to ACF and CLC in a 2007 limited-distribution report.

**RECOMMENDATIONS**

We recommend that CLC:

- refund $563,059 in unallowable indirect expenses charged to Federal Head Start grants,
- establish policies and procedures related to (1) obtaining approved indirect cost rates and (2) adequately safeguarding and maintaining Federal funds in insured bank accounts.

**OTHER MATTERS**

**Non-Federal Share**

Head Start Performance Standards found at 45 CFR § 1301.20 state that Federal Head Start financial assistance shall not exceed 80 percent of the total costs of the program and that the non-Federal share provided by the grantee will not be required to exceed 20 percent.

Pursuant to 45 CFR § 74.23(a)(3) and (4), all cost sharing or matching contributions, including cash and third party in-kind, must be necessary and reasonable for proper and efficient accomplishment of project or program objectives and allowable under the applicable cost principles. Federal regulations specify that (1) the rates for valuing volunteer services furnished by professional and other skilled and unskilled labor shall be consistent with the rates that the organization pays its own employees who perform similar tasks (45 CFR § 74.23(d)) and (2) the value of donated space shall not exceed the fair rental value of comparable space in the same locality as established by an independent appraisal (45 CFR § 74.23(h)(3)).

CLC documented that it received $2,330,006 in non-Federal share, which it derived from the State of Connecticut’s Head Start funds, volunteer hours, and donated classroom space ($625,898 for GY 2009; $833,708 for GY 2010; and $870,400 for GY 2011). These amounts exceeded CLC’s share requirements for non-Federal Head Start funds by $1.1 million ($228,639 for GY 2009; $437,188 for GY 2010; and $469,261 for GY 2011).
Our audit noted that CLC met its non-Federal share obligations, but we could not verify this based on CLC’s recordkeeping. CLC’s records did not always adequately document or correctly value its in-kind volunteer donations. For example, CLC did not always document the work that volunteers performed or document that work was performed for the benefit of the Head Start program. Additionally, CLC overstated volunteer in-kind contributions from corporate volunteers who read in the classroom at more than twice the hourly rate of an assistant teacher performing the same task.

Additionally, CLC’s records did not always adequately document or correctly value its donated classroom space. In GY 2009, CLC did not obtain an independent appraisal to determine the fair market value of the six facilities claimed as $50,743 for donated classroom space. In GYs 2010 and 2011, CLC claimed $266,550 annually in donated classroom space for a 12-classroom facility, even though 3 out of the 12 classrooms were for non-Head Start classes.

Even though CLC’s records overstated the total non-Federal share that it received, CLC appears to have adequate non-Federal share so that Federal funds did not exceed 80 percent of the Head Start program costs as required by Federal regulations.

**CHILDCARe LEARNING CENTERS, INC., COMMENTS**

In written comments on our draft report, CLC agreed with our findings and described its steps for addressing our recommendations.

CLC’s comments are included in their entirety in the Appendix.
APPENDIX
May 2, 2012

Mr. Michael J. Armstrong  
Office of Audit Services, Region I  
JFK Federal Building  
15 New Sudbury Street, Room 2425  
Boston, MA 02203

Dear Mr. Armstrong:


CLC is in agreement with all findings that have been presented in the audit report. Below we address the corrective actions that are in progress as well as actions that have already been implemented to correct the deficiencies in Report Number: A-01-11-02506.

1. CLC was not adequately safeguarding and maintaining Federal funds in insured bank accounts. We concur that CLC needs to secure accounts where our Federal funds are deposited and maintained. CLC has already corrected this issue by instructing our bank that all CLC accounts must be FDIC insured and cease to be invested in overnight funds. These changes were made and confirmed by our bank within 48 hours after OIG had advised CLC management of this deficiency.

2. CLC did not obtain an approved indirect cost rate to allocate certain general administrative costs that benefited more than one program. We again concur CLC needs to either obtain an indirect cost rate or charge all costs directly. With the help of the HHS Department in Boston, CLC is submitting an application to the Division of Cost Allocation for a negotiated indirect cost rate for current and future years. In addition, CLC is working with the Department of the HHS Boston office to address the past allocations drawn down by CLC and totaling $563,059 as indirect costs.

For questions regarding this response, please contact Darrell Ingram, CLC CFO at 203-323-5944.

Sincerely,

Barbara Garvin-Kester, Ed.D.  
Chief Executive Officer