

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE ADMINISTRATION FOR CHILDREN
AND FAMILIES REGION X DID NOT
ALWAYS RESOLVE HEAD START
GRANTEES' SINGLE AUDIT FINDINGS
IN ACCORDANCE WITH FEDERAL
REQUIREMENTS**

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Deputy Inspector General
for Audit Services

December 2017
A-09-16-01004

Office of Inspector General

<https://oig.hhs.gov>

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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.

Report in Brief

Date: December 2017

Report No. A-09-16-01004

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



Why OIG Did This Review

Head Start grantees are required to have Single Audits conducted in accordance with Office of Management and Budget Circular A-133 (also known as A-133 audits) for fiscal years beginning before December 26, 2014, in accordance with 45 CFR § 74.26(a). The Administration for Children and Families (ACF) is responsible for following up on recommendations made to grantees in A-133 audit reports.

Our objective was to determine whether ACF had a process in place to ensure a timely response to, and that corrective action was taken on, Head Start grantees' A-133 audit findings. Specifically, we determined whether ACF Region X resolved recurring audit findings in accordance with Federal requirements and ACF policies and procedures.

How OIG Did This Review

We reviewed Federal Audit Clearinghouse data for Head Start grantees in ACF Region X that submitted A-133 audit reports for Federal fiscal years 2013 through 2015. (Region X covers Alaska, Idaho, Oregon, and Washington.) We reviewed these reports to identify those with findings related to Head Start. For those reports for which ACF was responsible for resolution, we identified four reports that had recurring audit findings and reviewed the actions that ACF took to resolve those findings.

The Administration for Children and Families Region X Did Not Always Resolve Head Start Grantees' Single Audit Findings in Accordance With Federal Requirements

What OIG Found

ACF had a process in place to ensure that Head Start grantees took corrective action on A-133 audit findings. However, for Region X Head Start grantees that submitted audit reports to the Federal Audit Clearinghouse, ACF did not always resolve recurring audit findings in accordance with Federal requirements and ACF policies and procedures. Specifically, ACF did not issue Audit Determination Letters (which include management decisions on audit findings) to the grantees for two of the four audit reports we reviewed within 6 months after receiving the reports. The prompt resolution of audit findings helps ensure that grantees effectively and efficiently use Federal funds to carry out the activities for which they were authorized.

What OIG Recommends and ACF Comments

We recommend that ACF review its staffing levels and determine whether resources are aligned efficiently, and adjust as needed, to ensure that management decisions are issued to Head Start grantees within the required 6-month timeframe.

ACF concurred with our recommendation and stated that it will continue to explore alternative approaches to staffing challenges.

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INTRODUCTION

WHY WE DID THIS REVIEW

Head Start grantees are required to have Single Audits conducted in accordance with Office of Management and Budget (OMB) Circular A-133 (also known as A-133 audits) for fiscal years beginning before December 26, 2014, in accordance with 45 CFR § 74.26(a).¹ These audits ensure that recipients of Federal awards have complied with applicable Federal requirements related to management and use of funds. The Administration for Children and Families (ACF) is responsible for following up on recommendations made to grantees in A-133 audit reports. This review of ACF Region X, which covers Head Start grantees in Alaska, Idaho, Oregon, and Washington, is one of several reviews of ACF regions nation-wide. (Appendix B lists related Office of Inspector General (OIG) reports.)

OBJECTIVE

Our objective was to determine whether ACF had a process in place to ensure a timely response to, and that corrective action was taken on, Head Start grantees' A-133 audit findings. Specifically, for Head Start grantees that submitted audit reports to the Federal Audit Clearinghouse (FAC) for Federal fiscal years (FFYs) 2013 through 2015, we determined whether ACF Region X resolved recurring audit findings² in accordance with Federal requirements and ACF policies and procedures.

BACKGROUND

Single Audits

OMB Circular A-133³ requires that non-Federal entities (such as Head Start grantees) that expend \$500,000⁴ or more in Federal awards in a year⁵ have a Single Audit. These A-133

¹ OMB Circular A-133 has been superseded by 45 CFR part 75, subpart F, for audits of fiscal years beginning on or after December 26, 2014. A review of subpart F determined that the recommendation in this report is still valid.

² As used in this report, "recurring audit findings" were those that appeared in A-133 audit reports for at least 2 years.

³ *Audits of States, Local Governments, and Non-Profit Organizations* (June 26, 2007). Accessed at https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/a133_revised_2007.pdf on July 27, 2017.

⁴ Commercial entities that met the \$500,000 threshold during the audit period could elect to conduct either an A-133 audit or a financial-related audit (45 CFR § 74.26(d)(1)). The expenditure level for Federal awards was raised to \$750,000 for fiscal years beginning on or after December 26, 2014 (45 CFR § 75.501(a)).

⁵ Some State and local governments that are required by constitution or statute, in effect January 1, 1987, to be audited less frequently than annually are permitted to undergo audits biennially. Nonprofit organizations also are allowed to have biennial audits under certain conditions.

audits, conducted by independent auditors, are conducted in accordance with generally accepted government auditing standards, generally accepted auditing standards, and OMB Circular A-133. These audits include an examination of the entity's financial records and financial statements, testing of the entity's internal controls, and a review of the entity's compliance with requirements related to expenditures of selected Federal awards. The final audit report contains comments from the recipient, including corrective actions planned or taken to address the findings.

The recipient transmits the A-133 audit report to the FAC.⁶ OIG's National External Audit Review Center (NEAR) receives A-133 audit reports from the FAC. NEAR performs a desk review of each audit report to determine whether there are any issues with the report and whether the report meets generally accepted government auditing standards, generally accepted auditing standards, and OMB Circular A-133 requirements. NEAR prepares a transmittal letter and attachment that summarizes the audit findings and recommendations and identifies the Federal agency responsible for resolution. NEAR then distributes the transmittal letter and attachment to the grantee and the Federal agency responsible for resolution.

Federal Agencies' Resolution of A-133 Audit Findings

OMB Circular A-133 states that the Federal awarding agency is responsible for issuing a written management decision to the auditee, within 6 months after receipt of the audit report, for audit findings related to the agency's awards (§ __.405(d)). A management decision is the evaluation of the audit findings and the auditee's corrective action plan and includes a decision on what corrective action is necessary.

In resolving A-133 audit findings, a Federal agency's audit followup official is responsible for ensuring that (1) systems of audit followup, resolution, and corrective action are documented and in place; (2) timely responses are made to all audit reports; (3) disagreements are resolved; and (4) corrective actions are actually taken by grantees (OMB Circular A-50 § 7.c.).⁷

ACF's Resolution of A-133 Audit Findings

ACF's Office of Administration is responsible for the overall management and coordination of ACF external audits, such as A-133 audits of Head Start grantees. Action officials are responsible for resolution of audit findings for ACF programs. After resolving audit findings, ACF issues a management decision in an Audit Determination Letter (letter) sent to the grantee and issues a clearance document to OIG.

⁶ The FAC operates on behalf of OMB to disseminate A-133 audit reports to Federal agencies.

⁷ The guidance on Single Audit Act followup in OMB Circular A-50 has been superseded by 45 CFR part 75, subpart F, for fiscal years beginning on or after December 26, 2014. A review of subpart F determined that the recommendation in this report is still valid.

The ACF *External Audit Resolution Manual* (Mar. 29, 2006) (the Manual) provides policies and procedures for ACF to follow in resolving audit findings. Audit resolution is complete after a final decision on the amount of any monetary recovery has been reached; a satisfactory plan of corrective action has been developed and transmitted to the grantee, including a time schedule to correct all deficiencies established; and the audit report has been cleared from the Department of Health and Human Services (HHS) tracking system by submission and acceptance of an OIG Clearance Document (the Manual § 4-20-00).

The ACF action official should attempt to reach an agreement, in writing, with the grantee on any actions necessary to correct disclosed deficiencies. The letter to the grantee must describe each specific deficiency, its basis, the corrective action necessary, and the date by which the action will be completed (the Manual § 4-30-04). In cases where a grantee is unwilling or unable to correct deficiencies within a reasonable period of time, the action official must take appropriate action to institute safeguards to protect Federal funds. The action official is responsible for resolving all audit findings and must maintain documentation to support the resolution of the findings. The action official is also expected to follow up on actions taken to correct financial or management deficiencies disclosed in an audit report.

HOW WE CONDUCTED THIS REVIEW

We reviewed FAC data for Head Start grantees in ACF Region X that submitted A-133 audit reports for FFYs 2013 through 2015 (October 1, 2012, through September 30, 2015). We identified audit reports containing qualified or adverse opinions, going-concern paragraphs,⁸ reportable conditions or significant deficiencies in the financial statements, material weaknesses in the financial statements, questioned costs, and current-year findings.

We reviewed the audit reports to identify those with findings related to the Head Start program and then reviewed the NEAR transmittal letters to determine which agency was assigned responsibility for audit resolution. For those reports for which ACF was responsible for resolution, we identified four reports that had recurring audit findings and reviewed the actions that ACF took to resolve the findings in those reports.

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

Appendix A contains the details of our audit scope and methodology.

⁸ A going-concern paragraph is included in an audit report when there is substantial doubt about an entity's ability to continue operations. Statements on Auditing Standards No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AU § 341). Accessed at <http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00341.pdf> on July 27, 2017.

FINDING

ACF had a process in place to ensure that Head Start grantees took corrective action on A-133 audit findings. However, for Region X Head Start grantees that submitted audit reports to the FAC, ACF did not always resolve recurring audit findings in accordance with Federal requirements and ACF policies and procedures. Specifically, ACF did not issue letters to the grantees for two of the four audit reports we reviewed within 6 months after receiving the reports from NEAR.⁹

ACF DID NOT ISSUE AUDIT DETERMINATION LETTERS IN A TIMELY MANNER

The Federal awarding agency is required to issue a management decision on audit findings within 6 months after receipt of the audit report and to ensure that the recipient takes appropriate and timely corrective action (OMB Circular A-133 § __.400(c)(5)).

ACF did not issue letters, which include management decisions on audit findings, to Head Start grantees in a timely manner. Specifically, ACF did not issue the letters for two of the four audit reports we reviewed within 6 months after receiving the reports from NEAR: one letter was issued in 10 months, and the other letter was issued in 7 months.

The recurring findings in the two audit reports were (1) concentrations of credit risk arising from cash deposits in excess of insured limits and (2) a lack of segregation of duties related to financial transactions, including reconciling bank statements and recording all transactions and adjustments in the general ledger.

An ACF official stated that the letters were not always issued within 6 months because of staff turnover and the time it takes to hire new staff. According to an ACF official, during our audit period, there were fewer than 4 grant management specialists at ACF to handle the 71 to 84 Head Start grants in Region X.

Without resolving A-133 audit findings in a timely manner, the Head Start program runs the risk that grantees will not comply with Federal requirements and will mismanage Federal funds. The prompt resolution of audit findings helps ensure that grantees effectively and efficiently use Federal funds to carry out the activities for which they were authorized.

RECOMMENDATION

We recommend that ACF review its staffing levels and determine whether resources are aligned efficiently, and adjust as needed, to ensure that management decisions are issued to Head Start grantees within the required 6-month timeframe.

⁹ According to the new grants rule, which applies to audits of fiscal years beginning on or after December 26, 2014, the HHS awarding agency or pass-through entity responsible for issuing a management decision must do so within 6 months of acceptance of the audit report by the FAC (45 CFR § 75.521(d)).

ACF COMMENTS

In written comments on our draft report, ACF concurred with our recommendation and stated that it will continue to explore alternative approaches to staffing challenges. ACF's comments are included in their entirety as Appendix C.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed FAC data for Head Start grantees in ACF Region X¹⁰ that submitted A-133 audit reports for FFYs 2013 through 2015.

We did not perform a detailed review of ACF's internal controls because our objective did not require us to do so. We limited our internal control review to obtaining an understanding of ACF's policies and procedures related to the resolution of A-133 audit findings for Head Start grantees.

We conducted our audit from June 2016 through January 2017, which included fieldwork performed at ACF's regional office in Seattle, Washington.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations;
- reviewed ACF's policies and procedures concerning resolution of A-133 audit findings for Head Start grantees;
- interviewed ACF and Office of Head Start officials to obtain an understanding of the policies and procedures regarding the A-133 audit resolution process for Head Start grantees;
- reviewed FAC data for Head Start grantees in ACF Region X that submitted A-133 audit reports from FFYs 2013 through 2015;
- identified Head Start grantees with audit reports containing qualified or adverse opinions, going-concern paragraphs, reportable conditions or significant deficiencies in the financial statements, material weaknesses in the financial statements, questioned costs, and current-year findings;
- reviewed the A-133 audit reports for the grantees identified;

¹⁰ Region X covers Alaska, Idaho, Oregon, and Washington. Region X grantees in the Tribal Head Start program for American Indians and Alaska Natives are covered separately in a nation-wide report on Tribal Head Start grantees' A-133 audit findings: *The Administration for Children and Families Did Not Always Resolve American Indian and Alaska Native Head Start Grantees' Single Audit Findings in Accordance With Federal Requirements* (A-06-17-07003), issued December 14, 2017.

- identified grantees with recurring audit findings assigned to ACF for resolution and reviewed the audit reports;
- reviewed ACF's files to determine which actions were taken to resolve the recurring findings;
- reviewed audit information in ACF's Audit Resolution Tracking and Monitoring System (ARTMS) for those grantees with recurring findings;
- reviewed additional audit information (located outside of ACF's ARTMS) for those grantees with recurring findings;
- reviewed training and technical assistance records in the Head Start Enterprise System for those grantees with recurring findings; and
- discussed our finding and recommendation with ACF officials.

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

APPENDIX B: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>The Administration for Children and Families Did Not Always Resolve American Indian and Alaska Native Head Start Grantees' Single Audit Findings in Accordance With Federal Requirements</i>	<u>A-06-17-07003</u>	12/14/2017
<i>The Administration for Children and Families Region VI Did Not Always Resolve Head Start Grantees' Single Audit Findings in Accordance With Federal Requirements</i>	<u>A-06-16-00019</u>	9/29/2017
<i>The Administration for Children and Families Region IX Resolved Head Start Grantees' Single Audit Findings in Accordance With Federal Requirements</i>	<u>A-09-16-01003</u>	8/8/2017

APPENDIX C: ACF COMMENTS



ADMINISTRATION FOR
CHILDREN & FAMILIES

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November 2, 2017

Ms. Gloria L. Jarmon
Deputy Inspector General for Audit Services
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, DC 20201

Dear Ms. Jarmon:

The Administration for Children and Families (ACF) appreciates the opportunity to respond to the Office of Inspector General (OIG) report entitled, *The Administration for Children and Families Region X Did Not Always Resolve Head Start Grantees' Single Audit Findings in Accordance with Federal Requirements (A-09-16-01004)*. The following is ACF's response to the OIG's recommendation:

Recommendation:

ACF review its staffing levels and determine whether resources are aligned efficiently, and adjust as needed, to ensure that management decisions are issued to Head Start grantees within the required 6-month timeframe.

Response:

ACF concurs with this recommendation and will continue to explore alternative approaches to staffing challenges.

Thank you for the opportunity to review this report. Please direct any follow-up inquiries on this response to Scott Logan, Office of Legislative Affairs and Budget, at (202) 401-4529.

Sincerely,

/s/

Steven Wagner
Acting Assistant Secretary