

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF HEAD START COSTS
FOR FISCAL YEAR ENDING
JANUARY 31, 2005 FOR
JUNIATA COUNTY CHILD CARE
AND DEVELOPMENT SERVICES, INC.**



**Daniel R. Levinson
Inspector General**

**JANUARY 2006
A-03-05-03317**

Office of Inspector General

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JAN 26 2006

TO: David J. Lett, Regional Administrator
Administration for Children and Families, Region III

FROM: Regional Inspector General for Audit Services

SUBJECT: Audit of Head Start Costs for Fiscal Year Ending January 31, 2005 for
Juniata County Child Care and Development Services, Inc.
(A-03-05-03317)

The purpose of this report is to provide you with the final results of our audit of Head Start grant No. 03CH0007/25 awarded by the Administration for Children and Families (ACF) to Juniata County Child Care and Development Services, Inc. (Juniata) for the period February 1, 2004, through January 31, 2005. The objective of our audit was to review the financial practices and transactions relative to the Head Start grant.

Juniata drew down funds totaling \$861,362 and recorded costs totaling \$889,733 for the Head Start program period. We did not accept and recommend for adjustment costs totaling \$108,905 comprised of a draw-down of \$90,000 used improperly to pay off a line of credit bank debt established during the previous Head Start grant year and \$18,905 of unallowable and unsupported costs (See Appendix A). Also, we set aside costs totaling \$44,307 for ACF's adjudication (See Appendix B).

During our audit, Juniata officials presented us unrecorded costs totaling an additional \$151,523, of which Juniata adequately supported \$69,014. We did not accept \$67,236 for unemployment benefits, \$3,465 that were previously recorded costs, and \$11,808 that were either unsupported, did not relate to the Head Start program, or represented unallowable costs (See Appendix C).

We discussed our audit findings with Juniata officials at the end of our fieldwork. At ACF's request, we are issuing our report in final directly to ACF's Region III Administrator.

Since Juniata relinquished its Head Start grant on January 20, 2005, we recommend that ACF:

1. require Juniata to refund \$90,000 of 2005 grant funds used to improperly pay off a line of credit bank debt established during the prior year;
2. require Juniata to refund \$18,905 of unsupported and/or unallowable costs; and

3. make a determination on the acceptance of \$44,307 for set-aside costs that did not have sufficient supporting records for us to determine allowability.

BACKGROUND

Head Start is a discretionary grant program enacted under Title V of the Economic Opportunity Act of 1964 and is administered by ACF within the U.S. Department of Health and Human Services (HHS) pursuant to 45 CFR part 74. Major program objectives include:

- promoting school readiness by enhancing the social and cognitive development of low-income children through the provision of comprehensive health, education, nutrition, social, and other services;
- involving parents in their children's learning; and
- helping parents make progress toward educational, literacy, and employment goals.

Juniata was incorporated as a non-profit corporation on December 15, 1976, and operates three main programs: (i) Head Start; (ii) Child Day Care; and (iii) Information Services. The Head Start program, established in 1981, provides comprehensive early childhood development for low income preschool children and their families. Classes are held in three locations throughout Juniata County: McAlisterville, Port Royal, and Mifflintown, Pennsylvania.

The Region III Regional Administrator for ACF requested the Office of Inspector General's assistance to determine the cause and amount of Juniata's Head Start budget shortfall. Juniata officials brought the shortfall to ACF's attention in January 2005, prior to the end of the grant period. ACF requested this audit because Juniata's Board of Directors could not provide an adequate explanation as to the shortfall's amount or cause.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to review the financial practices and transactions relative to Juniata's costs claimed under Head Start grant No. 03CH0007/25 for the period February 1, 2004, through January 31, 2005. We focused our audit on determining the amount of the Head Start shortfall and determining whether Juniata spent Head Start funds on programs or activities that were allowable, appropriate and reasonable.

Scope

We judgmentally selected 77 transactions totaling \$158,072 of the \$889,733 recorded costs for detailed review to determine allowability, allocability, and reasonableness. We

also performed a review of the Head Start unrecorded/unpaid costs totaling \$151,523 that Juniata staff presented to us as a separate list during our fieldwork.

We reconciled Juniata's draw-down activities to its approved budget and reviewed a specific draw-down of \$90,000 used by Juniata to pay off a line of credit bank debt.

We were unable to obtain a final Financial Status Report (SF-269) from Juniata officials to establish the total costs claimed during the period February 1, 2004, to January 20, 2005, when the Head Start grant was relinquished. ACF officials told us that they have not yet received a final SF-269.

Our audit was also hampered by the lack of knowledgeable staff on site at Juniata, absence of supporting documentation, and the missing justification/authorization for various transactions. According to former Juniata officials, several factors caused this situation: (i) the resignation of the former executive director on March 12, 2004, (ii) the later departure of the former fiscal officer, and (iii) the resignation of 5 of 6 board members effective January 20, 2005, when the Head Start grant was relinquished.

There were significant differences between categorical line items included in the Head Start approved budget and the chart of accounts used by Juniata in recording the grant costs. We used our professional judgment to regroup the recorded costs and compared the costs to the approved budget.

We limited our review of internal controls to the procedures needed to accomplish our audit objectives. Meeting the objectives did not require a complete understanding or assessment of the internal control structure of Juniata.

We performed our audit from April 2005 through June 2005 at Juniata located in Mifflintown, PA. We discussed our audit findings with Juniata officials at the end of our fieldwork. At ACF's request, we are issuing this report in final directly to ACF.

Methodology

In performing this audit, we:

- Reviewed pertinent Federal laws and regulations, including 45 CFR part 74, "Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial Organizations; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments."
- Reviewed Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations."
- Reviewed Juniata's independent single audit report for fiscal year ended June 30, 2004.

- Reviewed Juniata's written policies and procedures.
- Reviewed various grant documents for the period February 1, 2004, through January 31, 2005, including the financial award that contains the annual budget by line item.
- Compared Federal cash draw-downs to the Head Start approved budget.
- Determined whether Federal cash draw-downs were used for Head Start expenses by judgmentally selecting a sample of transactions and tracing them to supporting documentation.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Juniata's total recorded costs for the Head Start program for the year ended January 31, 2005 were \$889,733 and total draw-downs from Head Start grant funds were \$861,362. We reviewed Juniata's draw-down practices and tested a sample of 77 transactions totaling \$158,072. We did not accept and recommend for adjustment \$108,905 and set aside \$44,307 for ACF's adjudication as follows.

1. We did not accept a cash draw-down of \$90,000 of Head Start funds made on April 7, 2004, because the amount was improperly used to pay off a line of credit bank debt established during the previous year.
2. We did not accept recorded expenses of \$18,905 because supporting documents were either missing or represented unallowable Head Start costs (See Appendix B).
3. We set aside recorded costs of \$44,307 for ACF's adjudication because there was insufficient documentation (See Appendix B).

Our review of financial records showed that Juniata did not maintain an effective financial system to support Head Start expenditures as required by Federal regulations. As a result of our findings, we determine Juniata's potential shortfall to be \$99,466 (See Appendix A).

Former Juniata officials attributed these findings to the former executive director and the former fiscal officer. They indicated that the former director and fiscal officer failed to closely review actual monthly expenditures, which they believed caused the shortfall.

LINE OF CREDIT

Juniata's former executive director established a \$100,000 line of credit bank debt during the fiscal year ending January 31, 2004. Of this \$100,000, \$90,000 was deposited into Juniata's Head Start program. According to former Juniata officials, the remaining \$10,000 was deposited into Juniata's general fund. On April 7, 2004, Juniata used Head Start program funds from the fiscal year ending January 31, 2005, to pay off the line of credit bank debt it had established during the previous program year.

Federal regulations state that a recipient may charge to the award only allowable costs resulting from obligations incurred during the funding period (45 CFR 74.28). According to ACF guidance, grant funds must be used in the budget period for which the funds were awarded. Grantees are not allowed to obligate more grant funds in 1 year than they were actually awarded.

UNALLOWABLE AND UNSUPPORTED COSTS

For recorded expenses on the Head Start grant, we reviewed supporting records of 77 judgmentally selected transactions totaling \$158,072. Of this amount, we:

- did not accept and recommend for adjustment \$18,905 of unsupported or unallowable costs, such as personal medical expenses for a Head Start employee, costs of services extending beyond grant period, and late fees on credit card;
- set aside for ACF's adjudication \$44,307 of costs for which the Juniata had insufficient supporting documentation, such as cancelled check, but no invoice to support cost; and
- accepted \$94,860 as supported, allowable, allocable, and reasonable costs under the terms of the grant and applicable Federal regulations.

Attachment A of OMB Circular A-122 "Cost Principles for Non-Profit Organizations" states that costs must be reasonable and adequately documented to be allowable. Juniata did not maintain adequate records. Juniata officials could not always provide us adequate supporting documentation in accordance with Juniata's policies and procedures, such as prenumbered purchase order, packing slip, approved invoice, prepared voucher, and canceled checks for the 77 transactions we tested (See Appendix B).

RECOMMENDATIONS

Since Juniata relinquished its Head Start grant on January 20, 2005, we recommend that ACF:

1. require Juniata to refund \$90,000 of 2005 grant funds used to improperly pay off a line of credit bank debt established during the prior year;

2. require Juniata to refund \$18,905 of unsupported and/or unallowable costs; and
3. make a determination on the acceptance of \$44,307 for set-aside costs that did not have sufficient supporting records for us to determine allowability.

OTHER MATTERS

During our audit, Juniata officials provided us a list of additional unrecorded Head Start program costs totaling \$151,523 that had not been paid. We reviewed this amount and determined that \$69,014 was adequately supported. We did not accept \$67,236 for unemployment benefits; \$3,465 for previously recorded costs; and \$11,808 for costs that were unsupported, did not relate to the Head Start program, or represented unallowable costs. We encourage ACF officials to decide if the \$69,014 should be considered in determining the total amount of grant expenses for Juniata (See Appendix C).



Stephen Virbitsky

APPENDIXES

APPENDIX A

Juniata County Child Care and Development Services, Inc.
Head Start Grant No. 03CH0007/25
Fiscal Year Ending January 31, 2005

Total Recorded Costs	\$ 928,742.88
Less - Depreciation	39,009.95
Recorded Costs on Head Start Grant	\$ 889,732.93
Less: Costs Not Accepted (See Appendix B)	18,904.88
Adjusted Recorded Costs	\$ 870,828.05
Less: Current Year's Draw-Downs	861,361.99
Adjusted Recorded Costs over Draw-Downs	\$ 9,466.06
Add: Unallowable Line of Credit Bank Debt Pay-off	90,000.00
Potential Shortfall *	\$ 99,466.06

*Potential shortfall before Administration for Children and Families' adjudication of set-aside costs and determination of other matters.

Juniata County Child Care and Development Services, Inc.
Head Start Grant No. 03CH0007/25
Fiscal Year Ending January 31, 2005

Budget Items / Recorded Transactions	Recorded Amount	OIG Amounts (*)		Notes
		Not Accepted	Set-Aside	
Personnel	\$566,304.14	\$1,645.93		1
Fringe Benefits	76,728.75	6,010.04		2
Travel	15,958.69		\$369.00	3
Equipment	38,491.00		38,491.00	4
Supplies	50,653.75	1,770.91	676.21	5
Contractual	10,142.33	207.00		6
Rent	21,330.96		650.00	7
Utilities, Telephone	20,736.65			
Building and Child Liability Insurance	24,737.99	4,709.05		8
Building Maintenance/Repair and Other Occupancy	9,631.15	1,344.22	300.00	9
Local Travel	15,866.08	5.56		10
Nutrition Services	242.00			
Parent Services	5,077.32			
Accounting and Legal Services	10,287.84	2,250.00	2,982.50	11
Publications/Advertising/Printing	3,846.07	224.00		12
Training or Staff Development	9,244.76		838.58	13
Other	10,453.45	738.13		14
Total Recorded Costs Less Depreciation	\$889,732.93	\$18,904.84	\$44,307.29	

(*) Our determination for not accepting and setting aside costs was based on Office of Management and Budget (OMB) Circular A-122 and Office of Inspector General, Office of Audit Services (OAS) Policies and Procedures Manual. OMB Circular A-122 states that, to be allowable, costs must be reasonable, adequately documented, and allocable to the award.

In accordance with the OAS manual, set-aside costs are used because we lack adequate documentation to support costs recorded under the grant, and we could not make a determination as to the allowability of those costs. Accordingly, we set aside those costs for future resolution between Administration for Children and Families (ACF) and Juniata County Child Care and Development Services, Inc. (Juniata). For details, please see the accompanying notes.

NOTES**1. Personnel**

Personnel costs totaling \$1,646 were not accepted and are recommended for adjustment. This amount was comprised of recorded payroll costs for five employees totaling \$778 that was not supported. Also, recorded payroll costs were overstated by \$868.

2. Fringe Benefits

Fringe benefits costs totaling \$6,010 were not accepted and are recommended for adjustment. This amount was comprised of undocumented costs totaling \$3,315, insurance coverage beyond the grant period totaling \$2,377, reimbursement of a Head Start employee for personal medical bill in the amount of \$305, and overstatement of \$13 for unemployment insurance benefit for two employees.

3. Travel

Travel costs totaling \$369 were set aside for ACF's adjudication. This amount represented three payments to employees. Although Juniata officials provided us copies of related vouchers and mileage expense sheets, they were not able to provide us related copies of either cancelled checks or check stubs. Accordingly, we were not able to verify the payments.

4. Equipment

Equipment costs totaling \$38,491 for purchasing a bus were set aside for ACF's adjudication. Juniata officials only provided a copy of the cancelled check to support payments of this amount. However, Juniata officials could not locate and provide us copies of related purchase order, approved invoice, and internally-prepared voucher supporting payment – all required documentation according to Juniata's written policies.

5. Supplies

Supply costs totaling \$1,771 were not accepted and are recommended for adjustment. This amount was unsupported and included unallowable late fees for a credit card charge.

Supply costs totaling \$676 were set aside for ACF's adjudication. Juniata officials provided us some documents (such as cancelled checks) but were not able to provide adequate supporting documentation (i.e, related purchase orders, packing slips, approved invoices, and vouchers) for this amount.

6. Contractual

Contractual costs totaling \$207 were not accepted and are recommended for adjustment. Juniata officials were not able to provide support for 69 hours of paid contractors' services.

7. Rent

Rent costs totaling \$650 were set aside for ACF's adjudication. Juniata officials provided us a cancelled check but were not able to provide either an approved invoice, rent receipt, or rental agreement supporting this amount.

8. Building and Child Liability Insurance

Building and child liability insurance costs totaling \$4,709 were not accepted and recommended for adjustment. This amount was comprised of \$2,208 for child liability insurance coverage beyond the grant period and unsupported officer's insurance costs totaling \$2,501.

9. Building Maintenance/Repair and Other Occupancy

Maintenance and repair costs on Head Start buses totaling \$1,344 were not accepted and are recommended for adjustment because they were unsupported.

Snow plowing service costs totaling \$300 were set aside for ACF's adjudication. This amount was not adequately supported because it did not have an approved invoice and internally prepared voucher.

10. Local Travel

Gas charges totaling \$6 were not accepted and are recommended for adjustment because they were unsupported.

11. Accounting and Legal Services

Audit fees totaling \$2,250 were not accepted and are recommended for adjustment. No documentation was provided to support this amount.

Professional fees representing two payments totaling \$2,983 for consulting services and professional fees were set aside for ACF's adjudication. Juniata officials only provided cancelled checks to support these payments but could not locate or provide related approved invoices and internally-prepared vouchers supporting these two payments.

12. Publications/Advertising/Printing

Publication, advertising, and printing costs totaling \$224 were not accepted and are recommended for adjustment. This amount was comprised of \$200 of unsupported membership renewal with National Head Start Association and \$24 of unallowable and unsupported credit card membership fee.

13. Training or Staff Development

Training or staff development costs totaling \$839 were set aside for ACF's adjudication. This amount represents a hotel stay and reimbursement to an employee for training. Juniata officials only provided cancelled checks to support payment but could not provide related approved invoices and internally-prepared voucher supporting payment.

14. Other

Other costs totaling \$738 were not accepted and are recommended for adjustment. This amount was comprised of \$194 of vehicle insurance costs extending beyond the grant period, \$515 of unsupported credit card charges, and \$29 of credit card late fees.

Juniata County Child Care and Development Services, Inc.
Head Start Grant No. 03CH0007/25
Fiscal Year Ended January 31, 2005

Customer Name	Description	Unpaid Amount	Supported Amount	Previously Recorded Amount	Not Accepted Amount	Notes
Mexico Market	Gas December and January	\$ 1,796.16	\$ 772.60	\$ 1,023.56		
Shaner	Oil Heat December	471.47		458.14	\$ 13.33	\$6.33 is finance charge; \$7 was unaccounted for.
Register's	Buses - Repair	1,342.97		1,342.97		
Clear Concepts	Observations - Behavior Problems	900.00	260.00	640.00		
Spring Tulpehocken	Drinking Water for Office	35.79	35.79			
Hamilton and Musser	CPA Last year's audit	439.38	301.88		137.50	Beyond grant period.
Oriental	Gas Buses	313.50	313.50			
Schlegel	Gas Buses	222.00	222.00			
Russell and Son	Oil Heat for Center	336.09	331.32		4.77	Finance charge
Discount School	Classroom Supplies	686.22	686.22			
Staff Mileage	Mileage for training Dec and Jan	1,647.48	1,647.48			
January Payroll	Payroll	57,114.81	56,826.80		287.99	Not a Head Start employee.
Mass Mutual	403B for Staff	4,280.92	2,303.30		1,977.62	\$1,334.10 unaccounted for; \$643.52 for non-Head Start employees.
US Toys	Classroom Supplies	448.50	448.50			
Juniata Dental Clinic	Child's Dental Bills	50.00	50.00			
4th Quarter local taxes	Local Taxes	1,764.67			1,764.67	Unsupported
Heiss Gibbons	Unemployment Consultants	760.00	760.00			
Nmax	Internet Dec and Jan	242.30			242.30	Unsupported
Heiss Gibbons	Unemployment - Summer	67,236.00			67,236.00	According to JCCCDs officials, Heiss Gibbons, the attorneys, calculated this amount. However, JCCCDs officials could not provide any documentation to support this amount. Furthermore, JCCCDs officials do not feel obligated to pay it because all the employees found new jobs immediately.
CCRD	Used CCRD money to pay for 12/15 pay period for HS	2,691.00	2,691.00			
PP&L	D.C. and CCIS paid electric for Head Start	780.40			780.40	Unsupported
Feeser's	Food Supplies	1,293.79	1,293.79			
Audit	CPA	6,600.00			6,600.00	Unsupported
Quil	Office Supplies	69.98	69.98			
Total		\$ 151,523.43	\$ 69,014.16	\$ 3,464.67	\$ 79,044.58	

ACKNOWLEDGMENTS

This report was prepared under the direction of Stephen Virbitsky, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

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