



JUN - 2 2008

TO: Daniel C. Schneider
Acting Assistant Secretary for Children and Families

FROM: *for* Daniel R. Levinson *Jay J. Gately*
Inspector General

SUBJECT: Review of Head Start Board of Directors, Inc., for the Period September 1, 2006, Through October 23, 2007 (A-01-07-02505)

The attached final report provides the results of our review of Head Start Board of Directors, Inc. (HSBD), for the period September 1, 2006, through October 23, 2007. The Administration for Children and Families (ACF) requested this review.

HSBD provides educational and daycare services to children at eight childcare centers in Rhode Island's Greater Providence and Blackstone Valley areas. Funding for programs sponsored by HSBD comes principally from Federal and State grants and contracts. For program year 2006–2007 (September 2006 through August 2007), ACF awarded HSBD a total of \$7.76 million in Head Start funds. For program year 2007–2008, ACF awarded HSBD an additional \$7.18 million, of which HSBD drew down \$1.18 million during our audit period.

The objective of our audit was to determine whether HSBD complied with applicable Federal and State requirements regarding the safety of children in its care and the management of and accounting for Federal funds.

HSBD did not fully comply with Federal and State requirements regarding the safety of children in its care and the management of and accounting for Federal funds. Specifically, HSBD failed to follow fire inspection requirements at four of its eight childcare centers and did not always comply with all Federal and State requirements for preemployment background checks. Additionally, HSBD's financial management systems did not meet Federal requirements for disclosing the results of each federally sponsored program and effectively accounting for Federal funds and assets. We attributed these deficiencies to HSBD's lack of internal controls.

Based on our preliminary audit findings, ACF suspended HSBD's funding on October 23, 2007, and hired a contractor to operate HSBD's Federal Head Start program on an interim basis. HSBD subsequently appealed the suspension to the Departmental Appeals Board. On January 22, 2008, the Appeals Board upheld the suspension because HSBD failed to disprove the legal or factual reasons for the suspension.

Because ACF has suspended HSBD's funding indefinitely, we are not making any recommendations to HSBD. Instead, we are providing this report to ACF for its use in overseeing the Head Start grant that serves children in the Greater Providence and Blackstone Valley areas.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-01-07-02505 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF HEAD START BOARD
OF DIRECTORS, INC., FOR THE
PERIOD SEPTEMBER 1, 2006,
THROUGH OCTOBER 23, 2007**



Daniel R. Levinson
Inspector General

June 2008
A-01-07-02505

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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>

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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 program objectives include promoting school readiness and enhancing the social and cognitive development of low-income children by providing health, educational, nutritional, and social services. The Administration for Children and Families (ACF) within the U.S. Department of Health and Human Services administers the Head Start program.

Head Start Board of Directors, Inc. (HSBD), provides educational and daycare services to children in Rhode Island's Greater Providence and Blackstone Valley areas. For program year 2006–2007, ACF awarded HSBD \$7.76 million in Head Start funds: \$7.07 million to serve 1,213 children in HSBD's eight childcare centers and \$688,950 to renovate two of its centers. For program year 2007–2008, ACF awarded HSBD an additional \$7.18 million, of which HSBD drew down \$1.18 million during our audit period. (Our audit covered the period September 1, 2006, to October 23, 2007.)

In July 2007, ACF requested that we audit HSBD to determine whether it complied with applicable Federal and State requirements regarding the safety of children in its care and fiscal management of grant funds. Based on our preliminary audit findings, ACF suspended HSBD's funding on October 23, 2007, and hired a contractor to operate HSBD's Federal Head Start program on an interim basis. HSBD subsequently appealed the suspension to the Departmental Appeals Board. On January 22, 2008, the Appeals Board upheld the suspension because HSBD failed to disprove the legal or factual reasons for the suspension.

OBJECTIVE

The objective of our audit was to determine whether HSBD complied with applicable Federal and State requirements regarding the safety of children in its care and the management of and accounting for Federal funds.

SUMMARY OF RESULTS

HSBD did not fully comply with Federal and State requirements regarding the safety of children in its care and the management of and accounting for Federal funds. Specifically:

- Contrary to Federal and State licensing requirements, HSBD either did not obtain fire inspections or failed to comply with the findings of a fire inspection at four of the eight childcare centers that it operated. Also, for 27 of its 207 current employees, HSBD did not comply with all Federal and State requirements for preemployment background checks. These deficiencies jeopardized the safety of children who received services in some of HSBD's centers.

- HSBD’s financial management systems did not meet Federal requirements for disclosing the results of each federally sponsored program and effectively accounting for Federal funds and assets. HSBD was unable to provide assurance that it used the \$8.94 million in Federal Head Start funds that it drew down during our audit period in accordance with Federal requirements.

These deficiencies occurred because HSBD lacked internal controls to ensure that it complied with Federal and State health and safety requirements and that it adequately managed and accounted for Federal funds. Because ACF has suspended HSBD’s funding indefinitely, we are not making any recommendations to HSBD. Instead, we are providing this report to ACF for its use in overseeing the Head Start grant that serves children in the Greater Providence and Blackstone Valley areas.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective	1
Scope.....	2
Methodology	2
RESULTS OF AUDIT	2
SAFETY OF CHILDREN	3
Fire Inspections.....	3
Employee Background Checks	4
FINANCIAL MANAGEMENT SYSTEMS	5
Managing Federal Funds.....	5
Accounting for Assets.....	5
CONCLUSION	6

INTRODUCTION

BACKGROUND

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major program objectives include promoting school readiness and enhancing the social and cognitive development of low-income children by providing health, educational, nutritional, and social services. The Administration for Children and Families (ACF) within the U.S. Department of Health and Human Services administers the Head Start program.

Head Start Board of Directors, Inc. (HSBD), a private nonprofit organization, provides educational and daycare services to children in Rhode Island's Greater Providence and Blackstone Valley areas. Funding for programs sponsored by HSBD comes principally from Federal and State grants and contracts. During our audit period, Federal Head Start grants made up approximately 70 percent of HSBD's revenue. HSBD received additional funding from Rhode Island daycare subsidies, Rhode Island Head Start, the U.S. Department of Agriculture's Child and Adult Care Food Program, and Medicaid.

For program year 2006–2007, ACF awarded HSBD \$7.76 million in Head Start funds: \$7.07 million to serve 1,213 children in HSBD's eight childcare centers and \$688,950 to renovate two of its centers. For program year 2007–2008, ACF awarded HSBD an additional \$7.18 million, of which HSBD drew down \$1.18 million during our audit period.

In July 2007, ACF requested that we audit HSBD to determine whether it complied with applicable Federal and State requirements regarding the safety of children in its care and fiscal management of grant funds. Based on our preliminary audit findings, ACF suspended HSBD's funding on October 23, 2007, and hired Community Development Institute Head Start to operate HSBD's Federal Head Start program on an interim basis. HSBD subsequently appealed the suspension to the Departmental Appeals Board. On January 22, 2008, the Appeals Board upheld the suspension because HSBD failed to disprove the legal or factual reasons for the suspension (Head Start Board of Directors, Inc., DAB No. 2148).

This report formalizes the information that we previously provided to ACF.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether HSBD complied with applicable Federal and State requirements regarding the safety of children in its care and the management of and accounting for Federal funds.

Scope

Our review covered program year 2006–2007 (September 2006 through August 2007) and the period from September 1 to October 23, 2007, when ACF suspended HSBD’s funding. To gain an understanding of HSBD’s operations, we conducted a limited review of HSBD’s internal controls as they related to our audit objective.

We performed our fieldwork from July 31 through December 7, 2007, at HSBD’s central office in Providence, Rhode Island.

Methodology

To accomplish our objective, we:

- reviewed Federal and State laws, regulations, and policies related to Federal grant awards and the Federal Head Start program;
- analyzed HSBD’s audited financial statements and audits conducted pursuant to Office of Management and Budget Circular A-133 for fiscal years 2005 and 2006, as well as its unaudited financial reports for fiscal year 2007;
- reviewed HSBD’s by-laws, Board of Director meeting minutes, organizational chart, and chart of accounts;
- interviewed HSBD’s senior management and financial staff;
- reviewed HSBD’s Head Start grant application and financial status (SF-269) reports;
- reviewed HSBD’s licenses and documentation of fire inspections and visited each of its eight childcare centers;
- reviewed HSBD’s files on all 207 current employees; and
- obtained HSBD’s comments on our preliminary findings.

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 objective.

RESULTS OF AUDIT

HSBD did not fully comply with Federal and State requirements regarding the safety of children in its care and the management of and accounting for Federal funds. Specifically:

- Contrary to Federal and State licensing requirements, HSBD either did not obtain fire inspections or failed to comply with the findings of a fire inspection at four of the eight childcare centers that it operated. Also, for 27 of its 207 current employees, HSBD did not comply with all Federal and State requirements for preemployment background checks. These deficiencies jeopardized the safety of children who received services in some of HSBD's centers.
- HSBD's financial management systems did not meet Federal requirements for disclosing the results of each federally sponsored program and effectively accounting for Federal funds and assets. HSBD was unable to provide assurance that it used the \$8.94 million in Federal Head Start funds that it drew down during our audit period in accordance with Federal requirements.

These deficiencies occurred because HSBD lacked internal controls to ensure that it complied with Federal and State health and safety requirements and that it adequately managed and accounted for Federal funds.

SAFETY OF CHILDREN

Fire Inspections

Pursuant to Federal Head Start regulations (45 CFR § 1306.30(c)), facilities used by Head Start grantees must comply with State and local licensing requirements. Under State law (Rhode Island General Laws §§ 42-72.1-4 and 42-72.1-5(2)), all child daycare centers are required to obtain a license, regardless of operating status, type of funding, sponsorship, or affiliation, and to comply with applicable State fire and health safety standards. The Rhode Island Child Day Care Center Regulations for Licensure (Licensing Regulations) state that facilities must be in compliance with applicable sections of the State Building, Fire, Health, and Sanitation Codes, as determined by facility inspection reports.¹ In Rhode Island, the Department of Children, Youth and Families is charged with licensing facilities that provide custodial care to children.

Four of HSBD's eight childcare centers were not in compliance with licensing requirements for fire inspections:

- For three childcare centers (Manton, Mc Michael, and Mount Hope), neither HSBD nor the local fire marshal's office could locate any past or current fire inspection reports.
- The fourth center (Mary T. Dean) received a fire inspection approval in September 2006 on the condition that it would not provide services to children in the basement. The fire inspection had found that the basement had no direct egress and that its wall paneling did not meet fire standards. In September 2007, we observed that the center was providing services to children in the basement.

¹Code of Rhode Island Rules 03-000-016 §§ A.3 and II.4.1 (2007).

HSBD's failure to follow fire inspection requirements jeopardized the safety of children who received services in some of HSBD's centers.

Employee Background Checks

Federal Head Start regulations (45 CFR § 1301.31(b)(1)) require grantees to conduct a State or national criminal record check in accordance with State law before hiring an employee. The Rhode Island Licensing Regulations, section II.12, state that childcare center directors must ensure that background checks, criminal record checks, and Child Abuse and Neglect Tracking System (CANTS) checks are conducted on all staff who have supervisory or disciplinary power over children or who have routine contact with children without the presence of other staff. Individuals whose criminal record checks identify convictions or arrests for specified offenses, including domestic assault and drug possession, must be disqualified from employment. The CANTS check results, which do not include specific information on a candidate's history, indicate that the candidate (1) is not recommended for employment because of disqualifying information, (2) requires further review by the employer, or (3) is cleared for employment.

Our review of HSBD's files on all 207 current employees found that HSBD did not comply with all Federal and State requirements before hiring 27 employees:

- The criminal record checks on four employees (two kitchen aides, one teacher's assistant, and one custodian) identified arrests and/or convictions for offenses that should have disqualified the individuals from employment in jobs working with children. These offenses included domestic violent assault and possession of marijuana and cocaine.
- HSBD's files contained no evidence of criminal record checks on eight employees (five teacher's assistants, one teacher, one family service worker, and the Executive Director of HSBD).
- CANTS check results on three employees (two teachers and one teacher's assistant) indicated that the individuals were not recommended for employment because of disqualifying information.
- CANTS check results on 12 employees (4 teachers, 4 teacher's assistants, 1 center-based health aide, 1 family service worker, 1 family services coordinator, and 1 receptionist) indicated that the individuals required further review before they could be hired. However, HSBD's files contained no documentation of further review.

By not ensuring that all employees who supervised, disciplined, or had routine unsupervised contact with children met all preemployment requirements, HSBD jeopardized the safety of children in its care.²

²After we shared our preliminary audit findings regarding the safety of children, HSBD acknowledged that three of its childcare centers lacked fire inspections.

FINANCIAL MANAGEMENT SYSTEMS

Managing Federal Funds

Federal regulations (2 CFR § 215.21(b)(1)) state that a grantee's financial management systems must provide "accurate, current, and complete disclosure of the financial results of each federally sponsored project or program." In addition, 2 CFR § 215.21(b)(2) requires that the grantee keep "[r]ecords that identify adequately the source and application of funds" for Federal programs that support the grantee's activities. Under 45 CFR § 74.52(a)(1)(i), Federal Head Start grantees are required to submit financial reports (SF-269) at least annually and to certify that the obligations and expenses included on the reports are complete and correct. Federal Head Start funding, pursuant to 45 CFR § 1301.20(a), must not exceed 80 percent of the total costs of the program. Further, 45 CFR § 1301.32(a) stipulates that development and administrative costs of a Head Start program must not exceed 15 percent of the total approved program costs.

Contrary to Federal requirements, HSBD's accounting system did not track and account for each program's costs separately. Instead, HSBD pooled its expenses in a single cost center and did not allocate expenses to the Federal Head Start program. As a result, we were unable to verify, for program year 2006–2007, that (1) the Federal Head Start funds awarded did not exceed 80 percent of the total Head Start program costs or (2) development and administrative costs did not exceed 15 percent of the total Head Start program costs.

On its yearend SF-269 report for program year 2006–2007, HSBD reported that it had obligated the entire \$7.76 million in Federal Head Start funds awarded. However, reports generated from HSBD's accounting system supported only \$2.77 million because HSBD did not properly allocate expenses to the various programs that it administered. HSBD drew down an additional \$1.18 million for program year 2007–2008 that it had not allocated. As a result, we had no assurance that HSBD used the \$8.94 million (\$7.76 million plus \$1.18 million) in Federal Head Start funds that it drew down during our audit period in accordance with Federal regulations.

In addition, Federal regulations (45 CFR §§ 1305.7(b) and 1304.52(d)) state that a Head Start grantee must maintain its funded enrollment level throughout the year. For program year 2006–2007, ACF funded HSBD to serve 300 children in a full-year program. However, HSBD shut down the Head Start program from June 1 through September 19, 2007.

Accounting for Assets

Federal regulations (45 CFR § 74.21(b)(3) and 2 CFR § 215.21(b)(3)) require that grantees' financial management systems provide for the effective control of and accountability for all funds, property, and other assets. To ensure that proper fiscal controls are in place, 2 CFR § 215.21(b)(6) requires that grantees have written policies and procedures in place for purposes of determining the allocability and allowability of costs in accordance with the Federal grant award and applicable cost principles. Pursuant to 45 CFR § 74.25(f)(1), grantees must obtain from the Federal awarding agency written approval for construction budget changes that result from changes in the project scope.

HSBD did not have required written management, financial, and accounting policies and procedures in place to ensure compliance with these requirements:

- HSBD did not ensure that duties were appropriately segregated to protect Federal assets. For example, the Executive Director approved purchase orders, ordered items online, approved invoices for payment, and approved a 1-week salary advance for herself without evidence of written approval from the Board of Directors.
- HSBD did not maintain a complete inventory of its assets. For example, purchase orders indicated that HSBD had purchased eight laptop computers, but HSBD's inventory list included only seven laptops.
- For program year 2006–2007, ACF provided HSBD with \$688,950 to renovate two childcare centers. However, HSBD obligated more than \$58,000 of this amount for office furniture, which was not included in the original project application, without obtaining permission from ACF.³

CONCLUSION

These deficiencies occurred because HSBD lacked internal controls to ensure that it complied with Federal and State health and safety requirements and that it adequately managed and accounted for Federal funds. Because ACF has suspended HSBD's funding indefinitely, we are not making any recommendations to HSBD. Instead, we are providing this report to ACF for its use in overseeing the Head Start grant that serves children in the Greater Providence and Blackstone Valley areas.

³After we shared our preliminary audit findings regarding financial management of Federal funds, HSBD acknowledged that its financial systems were inadequate.