DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

DEC - 6 2004

Report Number: A-04-04-03502

Mr. Charles Young, Chairman, Board of Directors
Mississippi Action for Progress, Inc.
1751 Morson Road
Jackson, Mississippi 39209

Dear Mr. Young:

Enclosed are two copies of the Office of Inspector General (OIG) final report entitled, *Review of Head Start Compensation at Mississippi Action for Progress, Inc.* (MAP). The objective of our audit was to determine whether MAP's compensation practices for teachers and the top five key executives were reasonable and consistent with Federal requirements and guidelines.

Final determination as to actions taken on all matters reported will be made by the Department of Health and Human Services' (HHS) action official. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (see 45 CFR part 5). As such, within 10 business days after the final report is issued, it will be posted on the World Wide Wed at http://oig.hhs.gov.

To facilitate identification, please refer to report number A-04-04-03502 in all correspondence.

Sincerely,

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures: As stated

**Direct Reply to HHS Action Official:**

Mrs. Carlis Williams, Regional Administrator
Department of Health and Human Services
Administration for Children and Families
61 Forsyth Street, S.W., Suite 4M60,
Atlanta, Georgia 30303-8909

**Department of Health and Human Services**

**OFFICE OF**
**INSPECTOR GENERAL**

# REVIEW OF HEAD START COMPENSATION AT MISSISSIPPI ACTION FOR PROGRESS, INC.

DECEMBER 2004
A-04-04-03502

# *Office of Inspector General*

**http://oig.hhs.gov**

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

**OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.

# EXECUTIVE SUMMARY

## BACKGROUND

### Head Start

Head Start began under Title V of the Economic Opportunity Act of 1964 and is administered by the Administration for Children and Families (ACF) within the Department of Health and Human Services (HHS). The purpose of the Head Start program is to: (1) promote school readiness by enhancing the social and cognitive development of low-income children through the provision of comprehensive health, educational, nutritional, social and other services; and (2) involve parents in their children's learning and to help make progress toward the parents' educational, literacy, and employment goals. To carry out the program, grants are awarded primarily to community-based, non-profit organizations and school systems.

Following news articles and congressional inquiries relating to excessive executive compensation at some Head Start agencies, Federal Head Start officials asked the Office of Inspector General (OIG) to initiate a nationwide review of nine Head Start agencies' compensation practices. Head Start officials asked us to audit Mississippi Action for Progress, Incorporated (MAP).

### Mississippi Action For Progress, Incorporated

MAP was chartered under State law on September 13, 1966 as a private, non-profit organization for the purpose of eliminating poverty in certain counties in the State. In addition to health and education services for preschool age children, MAP offers adult education programs for General Equivalency Degree (GED) training, English as a Second Language courses, Adult Basic Education classes from which students progress to the GED classes, and basic computer literacy programs. MAP became a Head Start grantee in 1966 and has no delegates.

## OBJECTIVE

The objective of our audit was to determine whether MAP's compensation practices for the top five key executives and for teachers were reasonable and consistent with Federal requirements and guidelines.

## SUMMARY OF FINDINGS

MAP's compensation for teachers appeared reasonable and consistent with Federal requirements when compared to other Head Start grantees in Mississippi as well as teachers employed by the State. Also, cost of living allowances (COLA) were allocated and quality improvement funds used in a manner consistent with ACF program instructions. However, MAP did not have a current wage study to support the compensation paid to its employees. MAP also did not comply with the Office of Management and Budget (OMB) Circular A-122 when allocating executive compensation charges to Head Start and other programs.

In addition to the compensation practices specific to the top five key executives and teachers, we identified four aspects of MAP's financial operations that need improvement.

**Employee Compensation Not Supported By A Current Wage Study**

MAP did not have a current wage study to support the compensation paid to its employees. As a result, MAP cannot assure that it complied with § 653 of the Head Start Act and OMB Circular A-122. MAP officials said that they attempted to conduct a wage comparability study internally in calendar year 2000 by sending questionnaires to other non-profit agencies in the State. However, MAP did not complete the study because of a poor response to the initial questionnaire.

**Executive Compensation May Be Excessively Allocated To Head Start**

MAP did not comply with the OMB Circular A-122 when allocating executive compensation charges to Head Start and other programs. Specifically, MAP charged the Head Start program for the total compensation packages of its top five key executives although the executives had responsibilities over at least three other programs. As a result, the Head Start program may have borne more than its fair share of total operating cost.

MAP management said that they spend very little of their time directly in connection with programs other than Head Start and Early Head Start.

**Other Financial Operations Issues**

In addition to the compensation practices specific to the top five key executives and teachers, we identified four aspects of MAP's financial operations that need improvement. Specifically:

(1) MAP may have violated a State statute governing charitable solicitations. Failure to comply with the State's charitable solicitations law could subject MAP to an administrative penalty up to a maximum of $25,000 for each violation. Although MAP occasionally solicited funds through charity events, they did not consider themselves a "charity."

(2) Contrary to OMB Circular A-122, MAP had control weaknesses in its accounting system. Specifically, an employee was not removed from the payroll system timely even though Human Resource records showed that the individual had terminated employment. This condition occurred because MAP did not routinely reconcile the payroll register to the general ledger and MAP's human resources system did not communicate automatically with the payroll system.

(3) MAP did not file annual returns (Form 5500s) for its retirement plan for all 3 years audited as required by Title I of the Employee Retirement Income Security Act of 1974. As a result, MAP could be subject to civil penalties for its failure to file the returns. MAP mistakenly believed that a third-party company it hired to administer its retirement plan had prepared and filed all the appropriate plan documents.

(4) MAP did not accurately complete its Federal information returns (Form 990s) for 2 of the 3 grant years audited. MAP may be subject to penalties for filing inaccurate returns. The compensation amounts were not accurately reported because MAP did not reconcile Form 990 amounts to general ledger amounts prior to filing the form with the Internal Revenue Service (IRS).

**RECOMMENDATIONS**

We recommend that MAP:

- **improve its overall compensation practices** by ensuring that compensation to all employees is based on a current wage comparability study that meets the requirements in Section 653 of the Head Start Act and any future clarification, guidance or requirements ACF might specify:

- **establish a time and effort reporting system** that complies with OMB Circular A-122 to ensure that costs are equitably allocated when employees have responsibilities for more than one program;

- **improve general financial operations by:**

  (1) registering under the State's Charitable Solicitations Act, as appropriate;

  (2) implementing a periodic reconciliation between its Human Resources and Payroll Department databases of active employees to ensure that individuals who are no longer employed by MAP are purged from the payroll system;

  (3) completing independent audits of its retirement plan and file Form 5500s to bring the plan into compliance with IRS and U.S. Department of Labor (DOL) requirements governing employee benefit plans; and

  (4) reviewing more carefully the amounts listed for Executive Compensation and Employee Benefit Plan Contributions on future Form 990s before they are filed.

**MISSISSIPPI ACTION FOR PROGRESS, INC. COMMENTS**

MAP officials concurred with our findings and recommendations. MAP officials said that they:

(1) completed a wage comparability study that meets the requirements of Section 653 of the Head Start Act;

(2) developed a time reporting system for all employees to allocate equitable charges to programs other than Head Start;

(3) will examine MAP's obligation to register under the State's Charitable Solicitations Act and will file any documents the State of Mississippi requires;

(4) implemented internal controls to ensure that terminated employees are immediately reported to the payroll department by Human Resources and developed a corrective action plan to ensure that the payroll processing system will purge terminated employees timely;

(5) employed an independent auditing firm to audit its retirement plan and are working with an independent tax attorney to comply with IRS requirements; and

(6) implemented procedures to ensure that the amounts reported for Executive Compensation and Employee Benefit Plan Contributions on Form 990 are reconciled to financial records before Form 5500 is filed.

The complete text of MAP's comments is included in the Appendix.

## TABLE OF CONTENTS

# INTRODUCTION

## BACKGROUND

### Head Start

Head Start began under Title V of the Economic Opportunity Act of 1964 and is administered by ACF within HHS. Its purpose is to: (1) promote school readiness by enhancing the social and cognitive development of low-income children through the provision of comprehensive health, educational, nutritional, social and other services; and (2) involve parents in their children's learning and to help make progress toward the parents' educational, literacy, and employment goals. To carry out the program, grants are awarded primarily to community-based non-profit organizations and school systems.

Following news articles and congressional inquiries relating to excessive executive compensation at some Head Start agencies, Federal Head Start officials asked us to initiate a nationwide review of nine Head Start agencies' compensation practices. Head Start officials asked us to audit MAP.

### Mississippi Action For Progress, Inc.

MAP was chartered under State law on September 13, 1966 as a private, non-profit organization for the purpose of eliminating poverty in certain counties in the State. In addition to health and education services for preschool age children, MAP offers adult education programs for GED training, English as a Second Language course, Adult Basic Education classes from which students progress to the GED classes, and basic computer literacy programs. MAP became a Head Start grantee in 1966 and has no delegates.

MAP operates 32 Head Start centers and 6 Head Start/Early Head Start Centers. For the 2001 - 2002 grant year, MAP employed 1,542 individuals and received funding from ACF to provide services to 4,944 Head Start/Early Head Start enrollees (4,794 Head Start and 150 Early Head Start).

MAP's total Head Start expenditures for grant years 2000, 2001, and 2002, were $28,532,083, $30,443,898, and $31,191,895, respectively. Expenditures for other (non-Head Start) programs during the same grant years were $4,745,634, $4,337,267, and $3,586,546, respectively. Total compensation packages for MAP's top five key executives ranged from $77,402 - $142,630 during grant year 2000 and increased to $91,182 - $168,214 for grant year 2002. The compensation packages were composed of: salary and incentive pay, health insurance, disability insurance, car allowance, and retirement.

## Regulations

The Head Start Act is Title VI, Subtitle A, Chapter 8, Subchapter B of the Omnibus Budget Reconciliation Act of 1981. The Head Start Act sets forth the requirements specific to Head Start programs.

OMB Circular A-122 entitled "Cost Principles for Non-Profit Organizations" establishes the cost principles applicable to MAP.

# OBJECTIVE, SCOPE, AND METHODOLOGY

## Objective

The objective of our audit was to determine whether MAP's compensation practices for the top five key executives and for teachers were reasonable and consistent with Federal requirements and guidelines.

## Scope

Our review covered MAP's grant years 2000, 2001, and 2002, which ran from December 1st through November 30th.

The five key executives were the highest paid employees at MAP who received some or all of their compensation from Head Start funding. We defined compensation as anything that increased the personal assets of the individual, such as salary and wages, fringe benefits, merit incentive pay, retirement, etc.

Our review of internal controls was limited to those controls related to the approval of compensation packages and the processing of payroll. See the *Other Financial Operations* section of this report for a discussion of related findings.

We performed our on-site fieldwork at the Region IV, ACF office in Atlanta, Georgia and MAP's central office in Jackson, Mississippi. On October 28, 2004, we held an exit conference via telephone with MAP officials to discuss the draft report's findings and recommendations.

## Methodology

To accomplish our objective we:

- reviewed Federal regulations relating to the Head Start program and OMB Circular A-122, Cost Principles for Non-Profit Organizations;

- interviewed Region IV ACF, State, and MAP officials;

- reviewed payroll journals, W-2s, Form 990s, and general ledger printouts to determine the total compensation and funding sources for the top five key executives;

- reviewed MAP policies, procedures, and board of director meeting minutes to determine the compensation approval process;

- reviewed documentation supporting current salary levels;

- reviewed teachers' wage data to determine the range of wages paid to teachers, as well as the average wage paid to teachers;

- compared compensation for MAP's teachers to the compensation paid to teachers employed by the State of Mississippi and at another Head Start grantee in the State; and

- determined if cost of living adjustment and quality improvement funds were used in accordance with Head Start program instructions.

Our audit was conducted in accordance with generally accepted government auditing standards.

## FINDINGS AND RECOMMENDATIONS

MAP's compensation for teachers appeared reasonable and consistent with Federal requirements when compared to other Head Start grantees in Mississippi as well as teachers employed by the State. Also, COLAs were allocated and quality improvement funds used in a manner consistent with ACF program instructions. However, MAP did not have a current wage study to support the compensation paid to its employees. MAP also did not comply with the OMB Circular A-122 when allocating executive compensation charges to Head Start and other programs.

In addition to the compensation practices specific to the top five key executives and teachers, we identified four aspects of MAP's financial operations that need improvement.

### COMPENSATION PRACTICES

#### Employee Compensation Not Supported By A Current Wage Study

MAP did not have a current wage study to support the compensation paid to its employees.

OMB Circular A-122 provides that in order to be reasonable, compensation for employees in organizations predominantly engaged in Federally sponsored activities should be comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved. Similarly, §653 of the Head Start Act (42 U.S.C. 9848) provides that Head Start employees may not receive compensation:

> …in excess of the average rate of compensation paid in the area where the program is carried out to a substantial number of persons providing substantially comparable services or in excess of the average salary paid to a substantial number of persons providing substantially comparable

> services in the area of the employee's immediately preceding employment….

MAP officials said that their employees' current salaries were based on a 1987 wage study. According to MAP officials, they periodically updated the 1987 wage study for cost of living changes. However, MAP officials could not provide documentation supporting that its current wage rates were based on the 1987 study and periodic updates. MAP also obtained a national wage comparability study dated April 2000, but did not implement the salary levels contained in the study because MAP's existing salary levels exceeded those of the comparable positions listed in the survey.

As a result, MAP cannot assure that it complied with the Head Start Act for any of its employees.

**Executive Compensation May Be Excessively Allocated To Head Start**

MAP did not comply with the OMB Circular A-122 when allocating executive compensation charges to Head Start and other programs.

OMB Circular A-122, *Cost Principals for Nonprofit Organizations*, Attachment B, § 7M provides that salaries and wages charged to awards must be supported by personnel activity reports that account for the total activity for which an employee is compensated.

The total compensation packages for MAP's top five key executives were fully allocated to the Head Start program although the executives had responsibilities over at least three other programs – Temporary Assistance to Needy Families program that was a pass-thru grant from the Mississippi Department of Human Services; Child Care Food Service Program that was a pass-thru grant from the U.S. Department of Agriculture; and Teacher Quality Enhancement Program that was a pass-through grant from the U.S. Department of Education. As a result, the Head Start program may have borne more than its fair share of total operating cost.

MAP management said that they spend very little of their time directly in connection with programs other than Head Start and Early Head Start.

**OTHER FINANCIAL OPERATIONS ISSUES**

In addition to the compensation practices specific to the top five key executives and teachers, we identified four aspects of MAP's financial operations that need improvement. Specifically:

(1) MAP may have violated a State statute governing charitable solicitations.

(2) MAP had control weaknesses in its accounting system. Specifically, an employee was not removed from the payroll system timely even though Human Resource records showed that the individual had terminated employment. We found no evidence that this weakness resulted in an actual erroneous payment, but additional controls are needed to reduce the likelihood of an erroneous payment in the future.

(3) MAP did not file annual returns (Form 5500s) for its retirement plan for all 3 years audited.

(4) MAP did not accurately complete its Federal information returns (Form 990s) for 2 of the 3 grant years audited.

**State Charitable Solicitation Statute**

MAP may have violated a State statute governing charitable solicitations.

According to the Mississippi Secretary of State's Office, it is illegal to make charitable solicitations without registering with the State. An exemption applies to any charitable organization that does not intend to solicit and receive contributions and does not actually receive contributions in excess of $4,000 during any State fiscal year. In order to secure the exemption, the State requires a one-time filing of a "Notice of Exemption."

As part of our inquiry into other local or State laws that may impact MAP as an agency, we identified the State statute governing charitable solicitations. During the course of its operations as a Head Start grantee, MAP occasionally solicited charitable donations through small local fundraisers.

Failure to comply with the State's charitable solicitations law could subject MAP to an administrative penalty up to a maximum of $25,000 for each violation.

Although MAP occasionally solicited funds through charity events, they did not consider themselves a "charity."

**Control Weaknesses In Accounting System**

MAP had control weaknesses in its accounting system.

OMB Circular A-122, Attachment A, requires that all factors affecting costs be reasonable, be determined in accordance with generally accepted accounting principles, and be adequately documented.

An employee was not removed from the payroll system timely even though Human Resource records showed that the individual had terminated employment. In October 2003, MAP wrote a paycheck to an employee who had resigned in August 2001. Although the error was detected and the check subsequently voided, this error indicates a weakness in MAP's payroll procedures.

As a result, improper paychecks may be cut and numerous accounts could be adversely affected, including withholding accounts for payroll and income taxes, contributions to employee retirement benefit accounts, and eligibility for employee group healthcare coverage.

This condition occurred because MAP did not routinely reconcile the payroll register to the general ledger. Manual adjustments made subsequent to an initial payroll run were not always reflected in the general ledger. All components of MAP's accounting package have not been fully integrated, which precludes the payroll system from flowing directly into the general ledger. Furthermore, MAP's human resources system did not communicate automatically with the payroll system. Specifically, the database of active employees maintained by Human Resources is separate from the database of employees authorized to receive payroll checks.

MAP officials said that they would institute a periodic match between the two systems and purge the names of those individuals from the payroll system who were not active employees.

**Employee Benefit Plan Returns Not Filed**

MAP did not file annual returns for its retirement plan for all 3 years audited.

Title I of the Employee Retirement Income Security Act of 1974 requires employee benefit plans to file an annual return. Form 5500, "Annual Return Of Employee Benefit Plan," should be filed annually with the IRS. The IRS and the DOL use the Form 5500 to ensure compliance with the tax and fiduciary requirements inherent in retirement and health benefit plan administration. The Form 5500 requires plan administrators to provide information about the retirement plan and the form must be made available, if requested, to plan participants.

MAP could be subject to civil penalties for its failure to file its retirement plans' annual returns. The following civil penalties may be assessed against plan administrators:

- Late Filers – may be assessed $50 per day, with no limit, for the period they failed to file.

- Non-Filers – may be assessed a penalty of $300 per day, up to $30,000 per year.

MAP previously relied on third-party companies to administer its retirement plan. MAP mistakenly believed that one of the companies had prepared and filed all the appropriate plan documents.

MAP officials recently hired an outside attorney to assist them in preparing the necessary plan filings and to bring its plan into compliance with applicable regulations.

**Inaccurate Federal Information Returns**

MAP did not accurately complete its Federal information returns (Form 990s) for 2 of the 3 grant years audited.

Internal Revenue Form 990, "Return of Organization Exempt From Income Tax," is a report that nonprofit entities must file each year. It serves two essential purposes. First, it provides information that helps the IRS and State charity regulators enforce the laws that govern nonprofits. Second, Form 990 provides a great deal of financial information about the filing organization's financial condition, about its financial strength or weakness, and about such things as the sources of its income.

Form 990 instructions require filers to report the compensation of the five highest paid employees other than officers, directors, and trustees and the payments to welfare benefit plans on behalf of these individuals.

The compensation amounts and the amounts reported as contributions to employee benefit plans on the Federal Information Form 990 for the top five key employees was $23,143 less than the amounts recorded in the accounting records for 2 of the 3 grant years audited.

The differences were as follows:

**Compensation Discrepancies**

| Filing Year | Amount Per Accounting Records | Amount on Form 990 | Underreported / (Overreported) Amount |
|---|---|---|---|
| **FY 2000** | **$425,187** | **$409,702** | **$15,485** |
| **FY 2001** | **Accurate** | **Accurate** | **Accurate** |
| **FY 2002** | **$506,328** | **$507,327** | **($999)** |

**Contribution to Employee Benefit Plans Discrepancies**

| Filing Year | Amount Per Accounting Records | Amount on Form 990 | Underreported / (Overreported) Amount |
|---|---|---|---|
| **FY 2000** | **$39,864** | **$38,316** | **$1,548** |
| **FY 2001** | **Accurate** | **Accurate** | **Accurate** |
| **FY 2002** | **$48,884** | **$41,775** | **$7,109** |

MAP may be subject to penalties for filing inaccurate returns. The compensation amounts were not accurately reported because MAP did not reconcile Form 990 amounts to general ledger amounts prior to filing the form with the IRS.

## RECOMMENDATIONS

We recommend that MAP:

- **improve its overall compensation practices** by ensuring that compensation to all employees is based on a current wage comparability study that meets the requirements in Section 653 of the Head Start Act and any future clarification, guidance or requirements ACF might specify;

- **establish a time and effort reporting system** that complies with OMB Circular A-122 to ensure that costs are equitably allocated when employees have responsibilities for more than one program;

- **improve general financial operations by:**

  (1) registering under the State's Charitable Solicitations Act, as appropriate;

  (2) implementing a periodic reconciliation between its Human Resources and Payroll Department databases of active employees to ensure that individuals who are no longer employed by MAP are purged from the payroll system;

  (3) completing independent audits of its retirement plan and file Form 5500s to bring the plan into compliance with IRS and DOL requirements governing employee benefit plans; and

  (4) reviewing more carefully the amounts listed for Executive Compensation and Employee Benefit Plan Contributions on future Form 990s before they are filed.

**MISSISSIPPI ACTION FOR PROGRESS, INC. COMMENTS**

MAP officials concurred with our findings and recommendations. MAP officials said that they:

(1) completed a wage comparability study that meets the requirements of Section 653 of the Head Start Act and in December 2004, the completed study will be presented to their Policy Council and Board of Directors for approval;

(2) developed a time reporting system for all employees to allocate equitable charges to programs other than Head Start;

(3) will examine MAP's obligation to register under the State's Charitable Solicitations Act and will file any documents the State of Mississippi requires;

(4) implemented internal controls to ensure that terminated employees are immediately reported to the payroll department by Human Resources and developed a corrective action plan to ensure that the payroll processing system will purge terminated employees timely;

(5) employed an independent auditing firm to audit its retirement plan and are working with an independent tax attorney to comply with IRS requirements; and

(6) implemented procedures to ensure that the amounts reported for Executive Compensation and Employee Benefit Plan Contributions on Form 990 are reconciled to financial records before the Form 5500 is filed.

## OTHER MATTERS

One of the top five positions at MAP during the period of our review was titled "In-House Counsel." An excerpt from the In-House Counsel's job description describes the duties of the

In-House Counsel as: "Provides advice and counsel on any legal matters or problems involving the company; acts as the chief in-house legal advisor of the organization." The In-House Counsel's total compensation was $81,337 and $100,248 for grant years 2001 and 2002, respectively.

A MAP official told us that the In-House Counsel was initially hired as MAP's Human Resource Director. This MAP official said that as more and more time was spent on union issues, the Human Resource Director's title was changed to In-House Counsel.

The MAP official also told us that the In-House Counsel formerly worked for the law firm that provided MAP legal services in the past and this firm still does outside legal work for MAP, but at a reduced volume. According to the MAP official, the In-House counsel was responsible for both legal and human resource matters.

The MAP official said that there were some savings by bringing the legal counsel in-house. This same official said that personnel management had become more complicated and MAP's overall costs had risen because of the need to address union issues.

OIG is concerned that MAP did not perform a formal analysis to determine which option would be more cost effective - contracting out its legal matters or employing a full-time counsel. MAP officials should perform a cost analysis to determine if employing full-time legal counsel is more cost effective than contracting-out for legal services.

**Mississippi Action For Progress, Inc. Comments**

In their written and verbal response to this issue, MAP officials asserted that the individual in question served as Human Resource Director during the time period covered by our audit. The job title was changed subsequent to this period to "In-House Counsel." MAP officials further asserted that the in-house counsel position is necessary and reasonable.

**OIG Response**

The OIG raised this issue as an "Other Matters" in order to ensure that MAP addressed the ongoing business and/or program necessity of retaining an in-house counsel at a relatively high level of pay. Since MAP officials did not provide any specific information regarding the cost-effectiveness of employing an "In-House Counsel," we continue to believe that MAP officials should perform a cost analysis to determine if employing full-time legal counsel is more cost effective than contracting-out for legal services.

# APPENDIX

**Mississippi Action For Progress, Inc.**
1751 Morson Road • Jackson, Mississippi 39209 • Telephone 601.923.4100

Bobby E. Brown, Ed.D.
*Executive Director*

RECEIVED
NOV 12 2004
Office of Audit Svcs.

November 10, 2004

Mr. Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV
Department of Health and Human Services
Office of Inspector General - Region IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

RE: Report Number: A-04-04-03502

Dear Mr. Curtis:

Please find enclosed Mississippi Action for Progress, Inc. response to Report Number A-04-04-03502.

Should you have any questions please do not hesitate to contact me at (601) 923-4126 or through e-mail at dfoster@mapheadstart.org.

Sincerely,

Dorothy Foster

Dorothy S. Foster, Ed.D.
Director of Financial/Administrative Support Services

Enclosure

# Mississippi Action for Progress, Inc.

**Formal Response to DHHS OIG Report Number: A-04-04-03502**

**November 2004**

**Mississippi Action for Progress, Inc. (MAP)**
**Formal Response to DHHS OIG Report Number A-04-04-03502**
**October 2004**

**Recommendation No. 1:**

***Improve its overall compensation practices*** by ensuring that compensation to all employees is based on a current wage comparability study that meets the requirements in Section 653 of the Head Start Act and any further clarification, guidance or requirements ACF might specify.

***Response:***

**Concur.** MAP completed a wage comparability study that meets Section 653 of the Head Start Act. MAP will periodically review this study to ensure that compensation paid to all of its employees is based on current wage data. The completed study will be presented to the Policy Council and Board of Directors for review and approval December 2004.

**Recommendation No. 2:**

***Establish a time and effort reporting system*** that complies with OMB Circular A-122 to ensure that costs are equitably allocated when employees have responsibilities for more than one program.

***Response:***

**Concur.** MAP currently allocates a portion of the salary of employees that have direct oversight of programs other than Head Start or Early Head Start to that particular program. MAP has developed a time reporting system for all employees to allocate equitable charges to programs other than Head Start. Employees that have any responsibility for other programs will be required to report such time on the individual time records and will be recorded in the financial records and charged directly to the program. These allocations are currently being implemented and will be so noted on the financial records for the PAY 37 ending November 30, 2004.

**Recommendation No. 3:**

***Improve general financial operations by:***

*A.* Registering under the State's Charitable Solicitations Act, as appropriate.

***Response***:

**Concur**. MAP is currently investigating its obligation to register under the State's Charitable Solicitations Act and will execute such documents as required by the State of Mississippi.

*B.* Implementing a periodic reconciliation between its Human Resources and Payroll Department databases of active employees to ensure that individuals who are no longer employed by MAP are purged from the payroll system.

***Response***:

**Concur**. MAP immediately implemented internal controls to ensure that terminations and separations of employees are immediately reported to the payroll department by Human Resources. Also, we have established a check and balance system between the Human Resource and Payroll Department to ensure that biweekly payroll records are reviewed before processing of a payroll. MAP has developed a corrective action plan to ensure that the internal controls are in place to ensure that the payroll processing system will purge all terminated employees in a timely manner.

**C**. Completing independent audits of its retirement plan and file Form 5500s to bring the plan into compliance with IRS and DOL requirements governing benefit plans:

***Response***:

**Concur**. MAP employed an independent audit firm to audit its retirement plan according to IRS and DOL requirements. MAP is still in the process of completing and filing its Form 5500s for the required periods. Due to the critical nature of this concern we are continuing to work with an independent tax attorney to comply with the IRS requirements.

**D**. Reviewing more carefully the amounts listed for Executive Compensation and Employee Benefit Plan Contributions on future Form 990s before they are filed.

***Response***:

**Concur**. MAP has implemented procedures to ensure that the amounts reported for Executive Compensation and Employee Benefit Plan Contributions on Form 990 are reconciled to financial records before the filing of Form 5500.

**Other Matters**

As we discussed during the exit interview, during the requisite review time frame of this audit the Agency did not have a job position titled "In-House Counsel." The position was Human Resource Director. It was agreed during the exit interview that this clarification would remove this subject from your final report. If we are incorrect in our understanding of this matter, please notify me immediately and I will address any remaining concerns.

# ACKNOWLEDGMENTS

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