Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF SELECTED HEAD START COSTS AT HARAMBEE CHILD DEVELOPMENT CENTER, INC.

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. Final determination on these matters will be made by authorized officials of the HHS operating divisions.

JUNE GIBBS BROWN
Inspector General

MAY 1997
A-04-96-00107

MAY 23 1997

REGION IV
P.O. BOX 2047
ATLANTA, GEORGIA 30301

CIN: A-04-96-00107

Mrs. Bernice Berry, Chairperson
Board of Directors
Harambee Child Development Council, Inc.
1108 Augusta Drive
Albany, Georgia 31707

Dear Mrs. Berry:

This final report provides you with the results of our audit of selected costs incurred by the Harambee Child Development Council, Incorporated (HCDC), Albany, Georgia.

OBJECTIVE

Our objective was to determine the allowability of specific costs in areas the Administration for Children and Families (ACF) identified as potentially questionable.

SUMMARY OF FINDINGS

We found that HCDC claimed $225,126 of Head Start costs that were unallowable.

The unallowable costs included:

- o non-Federal matching ($190,840),
- o payments for compensatory time ($30,186), and
- o travel ($4,100).

In addition, contrary to Federal regulations, HCDC drew down $45,737 of Head Start funds in excess of immediate cash needs.

Unallowable costs were claimed because HCDC did not have adequate internal controls relative to the cost areas reviewed. The HCDC drew cash in excess of needs in anticipation of making its annual contribution to the pension fund.

We are recommending that HCDC refund $270,863 to the Federal Government. We are also making certain procedural recommendations to strengthen HCDC's internal controls. The questioned costs are presented in detail in Exhibit A.

The HCDC declined a formal exit conference but submitted written comments regarding the findings and recommendations contained in the draft report. In their written response, HCDC disagreed with our findings and recommendations.

The HCDC's comments and the OIG's response are summarized after the recommendations in the body of the report. The complete text of HCDC's comments are included in Exhibit B.

BACKGROUND

The HCDC began as a Head Start Program in the summer of 1965. For the period November 1, 1995 through October 31, 1996, the ACF awarded HCDC $2.5 million to provide part and full-day services for about 683 children and their families. The U.S. Department of Agriculture's Food and Nutrition Administration is the HCDC's only other major source of funding.

On January 23, 1996, the ACF issued a report on the results of their September 1995 on-site monitoring (OSPRI) review. The results of the OSPRI review indicated serious non-compliance findings that resulted in ACF classifying the HCDC as a seriously deficient grantee.

In April 1996, ACF conducted a financial management system review. The reviewer noted many of the same deficiencies cited in the OSPRI review and also identified $475,000 that ACF considered unallowable.

OBJECTIVES, SCOPE AND METHODOLOGY

Our objective was to determine the allowability of specific costs in areas the ACF identified as potentially questionable.

Our review encompassed selected costs incurred during the periods November 1, 1991 through October 31, 1996. We also reviewed HCDC payments for compensatory time from February 1990 through July 1995.

To accomplish our objectives, we reviewed personnel policies and procedures, accounting records, payroll journals, leave records, purchase orders and associated supporting documentation. We obtained an understanding of the relevant policies, procedures and controls and determined whether they had been placed in operation for each of the cost elements reviewed.

In planning and performing our audit, we considered the financial and management control procedures that we believed appropriate for the proper expenditure of Federal funds and program administration. Such controls included HCDC policies and procedures for authorizing, recording, compiling and the segregation of duties and safeguarding and controlling assets as they relate to the cost elements reviewed. For those cost areas in which the management controls were either inadequate or did not exist, we conducted substantive tests to determine the propriety of the costs claimed.

Field work was performed at the HCDC in Albany, Georgia and in our Tallahassee Field Office during September 1996 through March 1997. Our review was conducted in accordance with generally accepted government auditing standards.

The HCDC declined an exit conference. However, on April 28, 1997, HCDC provided written comments to the draft report.

DETAILED RESULTS OF REVIEW

We found that HCDC claimed $225,126 for costs which were unallowable. The unallowable costs included:

- non-Federal matching ($190,840),
- payments for compensatory time ($30,186), and
- travel ($4,100).

Non-Federal Matching

The HCDC assigned $239,997 as the value of donated space, goods, and services. The amounts HCDC claimed for matching were either: (1) not supported by documentation, (2) inconsistent with fair market values, or (3) not allowable as non-Federal match. As a result, HCDC over-claimed $186,090 (Federal share) in non-Federal matching.

The HCDC also paid $4,750 for a second appraisal on a building. We did not consider the cost of the second appraisal reasonable.

> The Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Nonprofit Organizations", requires that donated space, goods and services be computed at fair market value when the donations are used to meet non-Federal matching requirements. In addition, the computed values must be allowable, reasonable, and allocable to the Head Start program.

Undocumented Volunteer Hours, Supplies and Equipment

The HCDC claimed non-Federal matching costs that were not supported by documentation. For the period November 1991 through April 1992, HCDC valued donated volunteer hours and supplies and equipment at $103,341. The volunteer hours represented time donated by parents and others in the community to support HCDC's activities.

The HCDC did not provide documentation to support the valuation. In the absence of the required documentation, we questioned the $103,341 claimed for non-Federal match in the 1992 grant year.

Building Values Inconsistent with Fair Market Values

The HCDC claimed non-Federal matching costs that were not consistent with fair market values. The HCDC valued the cost of donated space in excess of fair rental rates for one building described as the Tift Center ($70,856). The Tift Center is a former public school building that currently houses Head Start classrooms.

The HCDC paid for two appraisals to establish the fair rental value for the Tift Center. The first appraisal, in April 1996, cost $800. The second appraisal, in October 1996, cost $4,750. The first appraisal estimated $6,500 per month as the fair rental value for the Tift center. The second appraisal estimated a fair rental value of $9,250 a month, the amount HCDC claimed as non-Federal matching in prior years. In our opinion, neither the cost of the second appraisal nor the fair rental value established from it was reasonable.

The 45 CFR, Part 74.23 states with respect to donated space that:

> ***"The value of donated space shall not exceed the fair rental value of comparable space...and facilities in a privately-owned building in the same locality."***

The second appraisal used comparable rentals in other counties and cities in Georgia. For example, the second appraisal used rental rates from Gwinnett County, a county over 200 miles northeast of Albany, and Lake Park, Georgia, a small city about 100 miles southeast of Albany.

The HCDC did not give a reason for obtaining the second appraisal. We believe the second appraisal was obtained to support the $9,250 per month that HCDC claimed annually as a non-Federal share contribution.

The HCDC also claimed $38,633 in non-Federal matching for two other buildings, the Blalock ($13,200) and Albany Georgia Nursery School ($25,433) buildings, without obtaining rental rate appraisals. The HCDC did not provide documentation that showed the Head Start program benefitted from the use of the Blalock and Albany Georgia Nursery School buildings. During our site work, we observed that the Blalock Building was not used. We also observed that the Albany Georgia Nursery School building is used to store old furniture and storage boxes. Based on our observations, we consider the cost of the two buildings unallowable for non-Federal matching.

Other Items Unallowable As Non-Federal Match

The HCDC claimed $27,166 for other items that were not allowable as non-Federal match. These items include: (1) hours for parents while receiving GED training ($11,873), (2) parking for the Head Start program vans at the home of the Program Director ($2,196), and (3) an accounting adjustment proposed by HCDC's contracted accountant ($13,097).

According to the Program Director, the HCDC's accountant's services were billed below his standard rates. The accounting adjustment represents the difference between the hourly rate the accountant billed HCDC for his services and the rate he normally charges. The only documentation HCDC provided to support the $13,097 claimed was a letter from the accountant stating that the billing rates for Harambee had been "adjusted." The letter did not show the accountant's standard billing rate.

Recommendations

The HCDC should:

- reimburse the Federal Government $186,090 (Federal share) for the unallowable non-Federal share claimed,
- reimburse the Federal Government the $4,750 for the cost of the second appraisal on the Tift property, and
- develop and implement policies, procedures and controls to insure that values assigned to all non-Federal share items reflect fair market values.

HCDC Comments - Undocumented Matching Costs

The HCDC did not concur on the basis that the costs questioned as unsupported were incurred in a period beyond the three-year records retention requirement. Therefore, the HCDC had no responsibility to retain the supporting documentation.

OIG Response

We began our on-site work at HCDC in September 1996. The HCDC provided written comments to our draft report in April 1997. At no time between September 1996 and April 1997 did HCDC indicate that records we requested for review had not been retained.

The Code of Federal Regulations at 45 CFR 74.21 establishes that, with specific exceptions, records shall be retained for 3 years from the date the final expenditure report is submitted. However, if any litigation, claim, negotiation, audit or other action involving the records has been started before the expiration of the 3-year period, the records shall be retained until completion of the action and resolution of all issues which arise from it, or until the end of the regular 3-year period, whichever is later.

In this case, for the funding periods ended October 31, 1991 and 1992, the normal 3-year records retention period would have ended July 6, 1996 and January 31, 1996 respectively, based on the dates that the final expenditure reports were submitted to ACF.

On September 19, 1995, the ACF began an OSPRI review of all the components of the Harambee Head Start Program. The ACF reported the results of this review on January 23, 1996. At that time the Harambee program was deemed seriously deficient in numerous areas, including fiscal management. The issues raised in the OSPRI review have not yet been resolved in their entirety. Therefore, we believe HCDC should have retained the supporting documentation until all issues had been resolved.

HCDC Comments - Matching Costs Claimed Not Consistent With Fair Market Values

The HCDC did not concur with this finding. Essentially, HCDC said that the auditor did not identify the factual or documentary basis for the estimation of the fair rental value of the property in question. Further, the auditor did not adequately explain the difficulty of obtaining locally comparable rentals. In this case, the appraiser used unimproved warehouse space as comparable to a school with full facilities.

OIG Response

The original appraisal was contracted by HCDC. If the appraiser used inappropriate property for comparison, it was HCDC's responsibility to challenge the results. Albany, Georgia is a city with sufficiently diversified commercial properties that should allow the establishment of fair rental values.

The fair rental value for the property in question should have been determined through comparison to similar properties in the local area. We believe it was inappropriate for HCDC to go outside the local area to establish a higher fair rental value. Therefore, our findings and recommendations are unchanged.

HCDC Comments - Other Items Unallowable as Non-Federal Match

The HCDC said that they were unable to respond to this finding because the OIG did not identify the fiscal period in which the costs were claimed. However, HCDC believes that some of the costs questioned are under appeal to the Department of Health and Human Services' (HHS) Departmental Appeals Board.

OIG Response

We revised Exhibit A of the report to identify, by fiscal period, the costs we questioned relative to "Other Items Unallowable as Non-Federal Match."

Compensatory Time

The HCDC: (1) allowed employees to earn unreasonable amounts of compensatory time and (2) contrary to its own policy, paid employees for compensatory time. As a result, some employees accumulated large compensatory time balances and were paid $30,186 for accrued compensatory time.

The HCDC's Personnel Policies and Procedures Manual, Section 5.3 states, in part:

> ***". . .Employees receiving an annual salary equal to the minimum wage shall be entitled to compensatory time for overtime. . .Compensatory leave must be taken prior to the end of the pay period immediately following the period in which the overtime work was performed except for administrative personnel. . .Employees receiving an annual salary of $15,933 or more shall not be paid for overtime work, but may be granted compensatory time off."***

Compensatory Time Earned

The HCDC has an unwritten policy which allows employees to claim 6.5 hours of compensatory time each day while performing official travel that requires an overnight stay. Employees are allowed to claim compensatory time without regard to whether a benefit was provided to the Head Start program.

> Consider that an employee attends a Head Start conference that requires an overnight stay. The employee's normal work day begins at 8:00 a.m. and ends at 4:30 p.m. Under HCDC's unwritten policy, the employee would be entitled to 6.5 hours of compensatory time. This compensatory time would cover the period 5:30 p.m. to 12 midnight for each day in travel status. The HCDC does not allow compensatory time for the period 4:30 p.m. to 5:30 p.m. This uncompensated hour is considered the dinner hour.

The majority of compensatory time earned was earned by 6 employees. On October 31, 1996, the Program Director's compensatory time balance was over 1,007 hours. Three other employees' balances ranged from 188 hours to 982.5 hours as of October 31, 1996. The remaining two employees were paid for their compensatory time when they left HCDC.

In some instances, the amount of compensatory time earned for a week was not reasonable. The HCDC records indicate that for the week of April 21, 1995, the Program Director earned 61 hours of compensatory time. Assuming an 8-hour day and a 40-hour workweek, we believe it is unreasonable to expect an employee to work 101 hours (61 + 40) out of a total of 120 hours (5 days x 24 hours per day) available in the week. In such a scenario, there would be an average of only 3.8 hours per day that the employee was not working.

Compensatory Time Paid

From February 26, 1990 to July 7, 1995, HCDC paid $30,186 in compensatory time to six HCDC employees as follows:

Employee	Compensatory Balance at October 31, 1996	Nuumber of Payments	Number of Hours Paid	Hours Paid
Program Director	1,007.25	6	560	$16,534
Assistant Program Director	982.50	6	560	10,001
Fiscal Clerk	0	1	226.75	1,961
Education Coordinator	244.5	1	80	901
Secretary	188	1	80	638
Health Coordinator	0	1	17	151
Total Paid				$30,186

Of the $30,186, $16,534 (55 percent) was paid to the Program Director. All six HCDC employees that received payment for compensatory time also received annual salaries greater than $15,933. According to the Program Director, HCDC's CPA told her that she should be compensated for accumulated compensatory balances because the balances were becoming excessive.

Regardless of the Program Director's assertions, payment of compensatory time is not allowed under HCDC's policies and procedures.

Recommendations

The HCDC should:

- reimburse the Federal Government $30,186 paid to employees for compensatory time;

- adhere to its policy of not paying compensatory time to employees receiving an annual salary of $15,933 or more; and

- allow employees to earn only reasonable compensatory time for work that benefits the Head Start program.

HCDC Comments

The HCDC did not comment on our findings and recommendations relating to compensatory time. The HCDC said that the compensatory time issue has been appealed to the HHS Departmental Appeals Board.

Travel Costs

During grant years 1992 and 1996, HCDC paid:

- $2,704 in travel costs during the 1992 grant year that were not adequately supported.

- $1,396 in travel expenses that were not allocable to the Head Start program.

In addition, HCDC's personnel policies and procedures do not limit a traveler's claim for lodging costs.

Undocumented Travel Costs

The HCDC paid $2,704 in travel costs in the 1992 grant year that were inadequately documented. In eight instances, documentation for travel consisted only of a purchase order for the advance payment of travel funds. There were no travel vouchers, hotel receipts or other documentation to support the allowability of the travel costs.

The OMB Circular A-122, Attachment A states, in part:

> ***"To be allowable under an award, costs must . . . be allocable...and...adequately documented."***

The unallowable travel costs occurred because HCDC's travel policies, procedures and controls were inadequate to assure that all travel was properly documented.

The HCDC's travel policy is contained in the HCDC Personnel Policies and Procedures manual. However, the travel policy does not require the traveler to prepare travel vouchers for completed travel, and include receipts for transportation, lodging, and incidentals.

The HCDC's need to establish formal travel policies that require an accounting for the advance of travel funds is illustrated by the following. In December 1994 and November 1995, the Program Director received two advances totaling $1,392 to cover lodging, per diem, and miscellaneous expenses associated with trips to New York City and Cleveland, Ohio. The HCDC records showed no expenses were incurred relative to the advances. On December 12, 1995 and November 20, 1996, the Program Director repaid $1,388 of the $1,392 advanced.

Unallocable Travel Costs

The HCDC paid $1,396 for trips to Cleveland, Ohio and New York City that were not allocable to the Head Start Program. The $1,396 consisted of the following payments:

- $542 for an extended stay in Cleveland, Ohio which did not benefit the Head Start Program.

The Program Director was scheduled to attend the Annual Head Start Parents Conference in Cleveland, Ohio. The conference ran from 3:00 p.m. on December 1st to 12 noon on December 5th. The HCDC records showed that the Program Director arrived in Cleveland on the afternoon of December 4th and remained in Cleveland until December 9th. The Program Director opted to stay in Cleveland to attend a luncheon on December 8th held in her honor. The Program Director's attendance at this luncheon did not benefit the Head Start program. Consequently, the per diem and lodging costs for December 5th through December 9th are unallowable.

- $300 payment for an unused airline ticket;

On November 16, 1995, the Program Director purchased a non-refundable airline ticket to the Parent Conference in Cleveland. The ticket had a scheduled departure date of December 1st. According to the Director, she was unable to depart for

Cleveland on December 1st. The Director stated that she had to purchase another ticket to Cleveland costing $501.

While the original airline ticket may have been non-refundable, there was no evidence that efforts were made to use the ticket for future trips. Furthermore, the Program Director was unable to produce the unused airline ticket.

- $168 for unsupported costs for a trip to Atlanta, Georgia;

The $168 represents the difference between the $290 advanced to the Program Director for the trip and the $122 costs actually incurred.

- $386 for an additional day in travel status which did not benefit the Head Start program.

On December 15, 1994, three HCDC employees traveled to New York City to attend a conference that was to start on December 17. The HCDC did not provide justification for the additional day's per diem and lodging costs incurred on December 15.

Maximum Lodging Costs

The HCDC's policies and procedures do not provide limits on the amounts that will be reimbursed for lodging costs.

The Discretionary Grants Administration Manual section on travel states the following with regard to lodging costs:

> ***"If the organization has no written travel policy, Federal travel regulations (FTRs), including maximum per diem and subsistence rates, shall be used in determining the amount that may be charged to the project."***

The HCDC's Personnel Policies and Procedures Manual does not provide for fixed amounts for lodging costs. Lodging costs are paid based on the actual cost to the traveler. For example:

- o On the December 1995 trip to Cleveland, Ohio, HCDC paid lodging costs of $97.33 per night. The maximum lodging cost under the FTRs was $78 per night.

- o On two trips to Atlanta in 1996, HCDC paid lodging costs per night of $101.57 and $207.19. The maximum allowable lodging cost under the FTRs was $85 per night.

According to the Program Director, it has been HCDC's policy to pay actual lodging costs.

Recommendations

We recommend that HCDC:

- refund to the Federal Government the $2,704 for travel expenses that were not adequately documented;
- refund to the Federal Government the $1,396 paid for the trips to Cleveland, Ohio and New York City which were not allocable to the Head Start Program;
- revise its policies and procedures to require an after-the-fact accounting for travel costs. The procedures should require a travel voucher that includes all relevant data needed to document the cost claimed, and
- establish maximum lodging rates for official travel or use the rates prescribed in the FTRs.

HCDC Comments

The HCDC did not specifically comment on our findings and recommendations. The HCDC stated that they were not required to maintain documentation for the costs in question beyond the 3-year records retention period.

OIG Response

We questioned $4,100 of travel costs applicable to the 1992, 1995 and 1996 grant years. In our opinion, the records retention period had not expired for the 1992 grant year because the findings of the ACF 1995 OSPRI review had not been resolved. In regard to the 1995 and 1996 years, the $1,396 we questioned is well within the 3-year record retention period. Therefore, our findings and recommendations are unchanged.

Cash In Excess of Immediate Needs

Contrary to Federal Regulations, HCDC drew down $45,737 in Head Start Program funds in excess of immediate cash needs. As of March 1997, the $45,737 was on deposit in an interest bearing account at a local bank.

Title 45, Part 74, Subpart C, Section 74.22, a.2., entitled "Payment" states, in part,

> *"....cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the...project...."*

In November 1995, February 1996 and April 1996, HCDC made three deposits totaling $45,737 to an interest bearing bank account. The deposits were made in anticipation of paying the 1996 grant year pension plan expense. However, according to the pension plan administrator, HCDC's pension plan may be fully funded and may not need a contribution for the 1996 plan year.

Federal regulations require that grant funds be drawn down only as needed. The pension plan administrator also indicated HCDC had been requested to provide financial data in October 1996 and again, in January 1997, in order to determine the need for a plan contribution for 1996. As of March 31, 1997, HCDC had not responded to the plan administrator's request for data.

Recommendation

We recommend that the HCDC refund to the Federal Government the $45,737, plus any accrued interest.

HCDC Comments

The HCDC did not comment on our finding and recommendation regarding cash drawn in excess of immediate needs.

HCDC Comments and OIG Response - General

The HCDC offered the following general comments to the draft report.

> **HCDC Comment:** The entire audit was defective because it did not build on work performed by the independent auditor as required by 45 CFR 74.62.
>
> **OIG Response:** Paragraph 6.a. of the Attachment to OMB Circular A-133 requires that Federal audit work be planned and carried out in such a way as to build upon work performed by the independent auditor. The Circular permits a Federal agency to make any additional audits or reviews necessary to carry out responsibilities under Federal law and regulation.

HCDC Comment: Previous audit reports by independent auditors were accepted by HHS. Therefore, HCDC questioned the legal authority of HHS to take action regarding events applicable to the independently audited periods.

OIG Response: Paragraph 6.c. of the Attachment to OMB Circular A-133 does not limit the authority of Federal agencies, including the Office of Inspector General, to perform audits and evaluations of awards. Further, Paragraph 6.d. of the Attachment states that A-133 does not authorize any institution or sub-recipient to constrain Federal agencies, in any manner, from carrying out additional audits, evaluations or reviews. In our opinion, previous audits by HCDC's independent auditors does not invalidate HHS' authority to take action on the findings and recommendations stemming from this OIG audit.

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, Office of Audit Services (OAS) reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to the exemptions in the Act which the Department chooses to exercise.

We request that you respond within 30 days from the date of this letter to the HHS action official shown below. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

To facilitate identification, please refer to the above Common Identification Number (CIN) A-04-96-00107 in any correspondence related to this report.

Sincerely yours,

Charles J. Curtis

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

__Direct Reply To:__

Regional Administrator/HUB Director
Administration for Children
and Families
101 Marietta Tower, Suite 821
Atlanta, Georgia 30301

Review of Selected Head Start Grant Costs

Harambee Child Development Council, Inc.

Schedule of Costs Recommended for Adjustment by Grant Year

Grant Year	Non-Federal Matching Requirements	Excess Cash	Compensatory Time Payments	Travel Cost	Total
1992	$149,055[1]	$0	$17,432	$2,704	$169,191
1993	4,522	0	3,965	0	8,487
1994	4,799	0	4,253	0	9,052
1995	0	0	4,536	555	5,091
1996	32,464[2]	45,737	0	841	79,042
Total	$190,840	$45,737	$30,186[3]	$4,100	$270,863

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1 Includes $4,467 claimed as non-Federal matching for hours parents attended GED training and a $13,097 accounting adjustment for the services of HCDC's accountant. (See page 5.)

2 Includes $7,406 claimed as non-Federal matching for hours parents attended GED training and $2,196 for parking Head Start vans at the Program Director's home. (See page 5.)

3 Includes compensatory time payments from February 26, 1990 to July 7, 1995.

DONALDSON, HALL, MARTIN AND BELL, P. C.
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April 28, 1997

RECEIVED
APR 30 1997
Office of Audit Svcs.

Mr. Charles J. Curtis, Regional Inspector
General for Audit Services, Region IV
P. O. Box 2047
Atlanta, GA 30301

Re: Harambee Child Development Council, Inc. (HCDC)

Dear Mr. Curtis:

This law firm represents Harambee Child Development Council, Inc. and we are authorized by our client to respond to the draft document CIN(A-04-96-00107) and its transmittal dated April 14, 1997, under your hand.

GENERAL RESPONSES

Our first general response is that the entire audit is defective because it fails to comply with 45 C.F.R. 74.62, which provides, in part, that:

> "Any additional Federal audits or reviews shall be planned and carried out in such a way as to build upon work performed by the independent auditor."

Our second general response is also, in part, a response in detail to questioned costs in all three of the categories set out on Page 3 of the draft document and is that 45 C.F.R. 74.53 requires record retention for a period of three years. Any proposed disallowance of costs because of insufficient documentation is sustainable only to the extent that the records were less than three years old when field work began in September of 1996.

Our third general response is that HCDC has in its possession letters from the Department of Human Services indicating that the independent audits for all years through 92-93 have been reviewed and accepted. We question whether the Department of Health & Human Services has any legal authority to take action regarding events which occurred in periods which have been audited after the audit has been accepted by the Department of Health & Human Services.

DETAILED RESPONSES

Non-Federal Matching

Undocumented Volunteer Hours, Supplies & Equipment

This paragraph deals with the period November, 1991 through April, 1992, and disallows costs not supported by documentation. HCDC was not required by applicable regulations to retain this documentation past April, 1995.

Building Values Inconsistent with Fair Market Values

This paragraph deals primarily with an elementary school building made available to HCDC by the Dougherty County School System. The fair rental value of this building is currently the subject of an appeal to the Departmental Appeals Board (Docket No. A-96-136). It should be noted that the draft document carefully avoids identifying the factual or documentary basis on which the auditor rests his estimate of fair rental value and glosses over the difficulty of obtaining locally comparable rentals. The auditor mentions an appraisal in April of 1996 which uses unimproved warehouse space as comparable to a school with full commercial kitchen facilities, an auditorium with sound system, individually heated and cooled classrooms and restrooms specifically designed for school children.

Other Items Unallowable as Non-Federal Match

HCDC is unable to respond in detail to the allegations contained in this paragraph because the auditor failed to identify the fiscal period during which the costs were claimed by HCDC as Non-Federal Match. HCDC also believes that some of the items mentioned are currently under appeal under Docket No. A-96-136.

Compensatory Time

By letter dated April 2, 1997, the Department of Health & Human Services has made compensatory time paid officially an issue which can be appealed to the Departmental Appeal Board. By letter of even date, this issue has been appealed.

Undocumented Travel Costs

This category appears to deal primarily with lack of documentation. It also appears to deal primarily with time periods beyond the record retention requirements of 45 C.F.R. 74.53. To that extent, the proposed disallowance is not supportable.

We look forward to providing any further information which you may require in connection with these matters.

Sincerely,

MICHAEL C. HALL

MCH:fn

cc: Program Director
Harambee Child Development Council, Inc.

cc: Robert Smith, CPA