DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20201

October 4, 2010

TO: Yvette Sanchez Fuentes
Director, Office of Head Start
Administration for Children and Families

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at Philadelphia Parent Child Center, Inc.
(A-03-09-00368)

The attached final report provides the results of our limited scope review at Philadelphia Parent Child Center, Inc. This review was requested by the Administration for Children and Families, Office of Head Start, as part of its overall assessment of Head Start grantees that have applied for additional funding under the American Recovery and Reinvestment Act of 2009.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly this report will be posted at http://oig.hhs.gov.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-03-09-00368 in all correspondence.

Attachment

Department of Health & Human Services

OFFICE OF
INSPECTOR GENERAL

RESULTS OF LIMITED SCOPE REVIEW AT PHILADELPHIA PARENT CHILD CENTER, INC.

Daniel R. Levinson
Inspector General

October 2010
A-03-09-00368

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 & 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:

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social, and other services to enrolled children and families. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF) administers the Head Start program.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received $1 billion, including nearly $354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation and enhance transportation services. An additional $356 million was allocated to award all Head Start grantees a nearly 5 percent cost-of-living increase and bolster training and technical assistance activities.

Philadelphia Parent Child Center, Inc. (the Center), a nonprofit agency, operates a Head Start program that provides education, health, and social services to low-income preschool children and their families at locations within the Philadelphia area. The Center provides these Head Start services in its own classrooms as well as through the Center's delegate agency, Norris Square Civic Association, and its three collaborative agencies: Asociacion de Puertorriquenos en Marcha, Inc., Project Rainbow, and The Lighthouse. The Center also provides various other services for disadvantaged preschool children and their families.

The Center is funded primarily through Federal and State Government grants. For the fiscal year November 1, 2008, through October 31, 2009, ACF awarded Head Start grant funds to the Center totaling $6,145,071. The Center was not awarded Recovery Act grant funding for training or to upgrade Head Start centers and classrooms for the fiscal year November 1, 2008, through October 31, 2009. However, ACF did provide the Center's program with a Recovery Act funded cost-of-living increase of $91,386 and quality improvement payment of $229,403.

OBJECTIVE

The objective of our limited scope review was to assess the Center's financial viability, capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal requirements.

SUMMARY OF FINDINGS

Based on our assessment, we believe that the Center currently is not financially viable, has limited ability to account for Federal funds, and is not capable of operating a Head Start program in accordance with Federal requirements. Our review identified weaknesses relating to the Center's financial viability, fiscal staff, accounting system certification, in-kind valuation and reporting, and the reasonableness of employee compensation.

RECOMMENDATION

In determining whether the Center should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing the Center's ability to account for and manage Federal funds and to operate a Head Start program.

GRANTEE'S COMMENTS

In written comments on our draft report, the Center neither agreed nor disagreed with our findings. However, the Center provided information as to action it has taken since our review as well as additional information related to some of our findings. The Center's comments are attached as the Appendix. We are excluding attachments totaling 65 pages because of their volume.

OFFICE OF INSPECTOR GENERAL RESPONSE

The Center's written comments provided additional information and described actions that it has taken, but we did not verify the validity of the additional information provided. Accordingly, nothing in the Center's comments has caused us to change our findings or our recommendation to ACF.

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INTRODUCTION

BACKGROUND

Head Start Program

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social, and other services to enrolled children and families. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF) administers the Head Start program.

The Head Start program provides grants to local public and private nonprofit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families, with a special focus on helping preschoolers develop the early reading and math skills needed to be successful in school. Head Start programs engage parents in their children's learning and emphasize parental involvement in the administration of local Head Start programs.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received $1 billion, including nearly $354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation and enhance transportation services. An additional $356 million was allocated to award all Head Start grantees a nearly 5 percent cost-of-living increase and bolster training and technical assistance activities.

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The Center is funded primarily through Federal and State Government grants. For the fiscal year November 1, 2008, through October 31, 2009, ACF awarded Head Start grant funds to the Center totaling $6,145,071. The Center was not awarded Recovery Act grant funding for training or to upgrade Head Start centers and classrooms for the fiscal year November 1, 2008, through October 31, 2009, but ACF did provide the Center's program with a Recovery Act funded cost-of-living increase of $91,386 and quality improvement payment of $229,403.

Federal Requirements

The Head Start Program Performance Standards, found at 45 CFR §§ 1301 through 1311, establish regulations applicable to program operations, administration, and grants management for all grants awarded under the Head Start Act. Section 1301 of the Performance Standards establishes regulations applicable to program administration and grants management for grantees, including accounting system certification (§ 1301.13), non-Federal share requirements (§ 1301.20), administrative cost limitations (§ 1301.32), and requirements for written personnel policies for staff, including employee background check (§ 1301.31).

Section 642(i) of the Head Start Act states that, in order to receive funds under this subchapter, a Head Start agency shall document strong fiscal controls, including the employment of well-qualified fiscal staff with a history of successful management of a public or private organization.

Federal requirements (45 CFR § 74.23 (i)) require supporting records for in-kind contributions from third parties. "(1) Volunteer services shall be documented and, to the extent feasible, supported by the same methods used by the recipient for its own employees, including time records. (2) The basis for determining the valuation for personal service, material, equipment, buildings and land shall be documented."

Nonprofit organizations that receive Head Start funds must comply with Federal cost principles found at 2 CFR part 230 (formerly Office of Management and Budget (OMB) Circular A-122). Appendix B of the requirements (2 CFR, pt. 230, App. B § 8.c.2) states that when the organization is predominantly engaged in federally-sponsored activities and in cases where the kind of employees required for the federal activities are not found in the organization's other activities, compensation for employees on Federally-sponsored work will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our limited scope review was to assess the Center's financial viability, capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal requirements.

Scope

We performed this review in response to a June 19, 2009, limited scope request from ACF. Therefore, we did not perform an overall assessment of the Center's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was November 1, 2005, through June 30, 2009.

We performed our fieldwork at the Center's administrative office, delegate agency, and three collaborative Head Start agencies in Philadelphia, Pennsylvania, during August 2009.

Methodology

To accomplish our objectives, we:

- reviewed relevant Federal laws, requirements, and guidance;

- reviewed the Center's Head Start application and supporting documentation;

- reviewed Federal Head Start grant award documentation to determine the Center's total Head Start and Recovery Act Federal funding;

- interviewed the Center's personnel to gain an understanding of its accounting system, accounting controls for the procurement and payment process, and current accounting system certification;

- reviewed the Center's audited financial statements for fiscal years 2006 through 2008;

- reviewed the Center's bank statement reconciliations for the period November 2008 through June 2009;

- performed ratio analyses of the Center's financial statements for fiscal years 2006 through 2008;

- reviewed the Center's 2009 wage and salary compensation documentation;

- reviewed the Center's personnel activity reports for 11 employees for the period May through June 2009;

- reviewed the Center's procedures for monitoring it's one delegate and three collaborative agencies;

- reviewed the Center's delegate and collaborative agency volunteer activity forms for the period April through June 2009; and

- interviewed ACF personnel and reviewed documentation on its pending disallowance and the subsequent Departmental Appeals Board's ruling for the Center's non-Federal share grant requirements.

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.

FINDINGS AND RECOMMENDATION

Based on our assessment, we believe that the Center currently is not financially viable, has limited ability to account for Federal funds, and is not capable of operating a Head Start program in accordance with Federal requirements. Our review identified weaknesses relating to the Center's financial viability, fiscal staff, accounting system certification, in-kind valuation and reporting, and the reasonableness of employee compensation.

FINANCIAL VIABILITY

Decline in Liquidity

The Center's financial viability has generally declined from fiscal year 2006 through 2009. As part of our ratio analysis of the Center's financial data, we reviewed the current asset balance and current liability balance at the end of each fiscal year. Current assets generally represent cash and other assets that the facility can convert to cash within 1 year and current liabilities are generally liabilities that the facility expects to pay off within a year. We generated a current ratio–the relationship of current assets to current liabilities–to determine the Center's ability to pay its current obligations.

The Center's Financial Status

Fiscal Year	2006	2007	2008	2009[1]
Current Assets	$2,486,024	$4,715,020	$5,751,204	$6,410,298
Current Liabilities	$2,179,568	$4,562,222	$5,686,837	$7,441,242
Difference	$306,456	$152,798	$64,367	($1,030,944)
Current Ratio	1.14	1.03	1.01	0.86

During the first 7 months of fiscal year 2009 (November 1, 2008, through May 31, 2009), the Center's current liabilities exceeded its current assets by $1,030,944, which led to a current ratio of less than one. In addition, the Center's current ratio has continued to decline from fiscal year 2006 through 2009. At the time of our review, there was a risk that the Center might have to incur additional debt to pay its fiscal year 2009 expenses.

Administration for Children and Families Disallowance

ACF performed on-site reviews of the Center during fiscal year 2007, and determined that the Center did not meet the non-Federal share grant requirements. Specifically, ACF found that the Center's cost sharing and matching documentation did not support the claimed costs. Pursuant to Section 640(b) of the Head Start Act, ACF issued a disallowance in the amount of $1,590,081. The Center appealed ACF's disallowance and, in December 2009, the Departmental Appeals Board for the Department of Health and Human Services (DAB) upheld portions of the disallowance totaling $995,427 (Philadelphia Parent Child Center, Inc., DAB No. 2297 (2009)).

[1] Fiscal year 2009 financial statements were not yet prepared at the time of our review. The financial data is from the Center's unadjusted and unaudited financial ledgers as of May 31, 2009.

The Center was unable to provide additional supporting documentation and is required to refund the Federal Government the disallowed amount. At this time, the Center does not have enough current assets to meet its current liabilities and the addition of this disallowance will put a further burden on its ability to remain financially viable.

FISCAL STAFF

Section 642(i) of the Head Start Act states, that in order to receive funds under this subchapter, a Head Start agency shall document strong fiscal controls, including the employment of well-qualified fiscal staff with a history of successful management of a public or private organization. The Center does not have a Director of Finance to oversee its financial system. During April 2009, the Center fired its Director of Finance. As of August 2009, the position has not been filled. The Center has advertised the vacancy and is in the process of interviewing candidates, but the position remained open at the time of our review.

ACCOUNTING SYSTEM CERTIFICATION

Pursuant to 45 CFR § 1301.13, grantees, upon request from the Department of Health and Human Services, shall submit an accounting system certification. This certification must be prepared by an independent auditor and must state that the accounting system or systems established by the grantee has appropriate internal controls for safeguarding assets, checking the accuracy and reliability of accounting data, and promoting operating efficiency.

The Center was unable to provide a current accounting system certification. In October 2008, ACF requested that the Center, as a requirement to be removed from high risk status, obtain an independent accounting system certification. The Center has attempted to attain a certification, but the most recent independent accountant's report, dated February 2009, still cites several areas of material non-compliance and did not certify the Center's accounting system.

IN-KIND VALUATION AND REPORTING

Federal regulations (45 CFR § 74.23 (i)) require supporting records for in-kind contributions from third parties. "(1) Volunteer services shall be documented and, to the extent feasible, supported by the same methods used by the recipient for its own employees, including time records. (2) The basis for determining the valuation for personal service, material, equipment, buildings and land shall be documented."

The Center did not value or account for the non-Federal matching portion of its budget in accordance with Federal requirements. As part of its Head Start program, the Center works with one delegate agency, Norris Square Civic Association, and three collaborative agencies: Asociacion de Puertorriquenos en Marcha, Inc., Project Rainbow, and The Lighthouse. These agencies provide data to the Center on parent and volunteer activity for use in the Center's calculation of the non-Federal in-kind matching percentage. The data is collected on volunteer activity forms and transmitted to the Center.

Our review of volunteer activity forms for April through June 2009 found that the delegate and collaborative agencies did not maintain properly verified and certified volunteer activity forms. The Center did not ensure that the data from these forms, which the Center used as part of its non-Federal in-kind match calculation, was accurately recorded, compiled, and transmitted. Without accurate information documenting the time volunteers actually spent in Head Start activities, we were not able to determine whether the Center is correctly claiming volunteer involvement as part of its in-kind matching valuation.

REASONABLENESS OF EMPLOYEE COMPENSATION

Appendix B of the cost principles (2 CFR, pt.230, App. B § 8.c.2) states that when the organization is predominantly engaged in federally-sponsored activities and in cases where the kind of employees required for the federal activities are not found in the organization's other activities, compensation for employees on Federally-sponsored work will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.

The Center did not establish the reasonableness of employee compensation for fiscal year 2009. The Center provided two independent Head Start compensation surveys published in November 2007 and March 2009 as documentation of the reasonableness of employee compensation for fiscal year 2009. However, these surveys did not provide comparable compensation for all of the positions listed at the Center. For example, the November 2007 survey did not list the Center's positions of President/Chief Executive Officer and Executive Vice President and the March 2009 survey did not list the Center's position of Executive Vice President. In addition, the Center did not provide a comparison of all of the Center's positions that were on the surveys and the handwritten comparisons that were performed on the March 2009 survey were only completed after our request for a wage comparison.

RECOMMENDATION

In determining whether the Center should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing the Center's ability to account for and manage Federal funds and to operate a Head Start program.

GRANTEE'S COMMENTS

In written comments on our draft report, the Center neither agreed nor disagreed with our findings. However, the Center provided additional information related to some of our findings. Regarding its financial viability, the Center stated that the May 2009 Consolidated Balance Sheet did not contain an unposted $1 million receivable and stated that the DAB did not render an amount in its decision to partially uphold the ACF disallowance. Regarding reasonableness of compensation, the Center also stated that President/Chief Executive Officer and Executive Vice President were corporate titles for positions held by the Head Start Director and Early Head Start Director, whose compensation levels were reasonable. Additional comments described the actions the Center has taken since our review.

The Center's comments are included as the Appendix. We are excluding attachments totaling 65 pages because of their volume.

OFFICE OF INSPECTOR GENERAL RESPONSE

During our audit, the Center did not provide us with information on a $1 million unposted receivable that should have been included in the May 2009 Consolidated Balance Sheet. Through discussions with officials from the Center, we kept them aware of our review of the Center's financial viability and the asset and liability conclusions that we were reaching. On December 31, 2009, the DAB upheld portions of the disallowance totaling $995,427. The detail for the partially upheld total can be found at Philadelphia Parent Child Center, Inc., DAB No. 2297 (2009). The Center did not provide support of a wage comparison between an allocation of the President/Chief Executive Officer's salary to the Head Start Director salary in the 2007 or 2009 compensation surveys or the Executive Vice President's salary to the Early Head Start Director salary in the 2007 or 2009 compensation survey. Accordingly, nothing in the Center's comments has caused us to change our findings or our recommendation to ACF.

APPENDIX

APPENDIX: GRANTEE'S COMMENTS

THE PHILADELPHIA PPCC PARENT CHILD CENTER, INC.
Jacqueline M. Green, President & CEO

August 23, 2009

Stephen Virbitsky
Regional Inspector General for Audit Services
Office of Audit Services, Region III
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106-3499

RE: Report Number A-03-09-00368

Dear Mr. Virbitsky:

Per your discussion on August 10, 2010, with Mrs. Jacqueline Green granting us a two week extension to respond to the, "Result of the Limited Scope Review of the Philadelphia Parent Child Center, Inc", we have enclosed our response to the above referenced draft report dated July, 2010.

The Board is requesting that all of our responses and attachments become a permanent part of the report and be included in the public posting on the OIG Web site.

Thank you.

Sincerely,

Joseph C. Aiken, Sr.

Joseph C. Aiken, Sr., Chairman
Board of Directors

cc: Leonard Piccari, Audit Manager, Office of Audit Services
Jacqueline M. Green, President & CEO

FINANCIAL VIABILITY

Finding:

The Center's financial viability has generally declined from fiscal year 2006 through 2009. As part of our ratio analysis of the Center's financial data, we reviewed the current asset balance and current liability balance at the end of each fiscal year. Current assets generally represent cash and other assets that the facility can convert to cash within 1 year and current liability are generally liabilities that the facility expects to pay off within a year. We generated a current ratio-the relation of current assets to current liability-to determine the Center's ability to pay its current obligations.

Response:

The May, 2009 Consolidated Balance Sheet given to the OIG auditors during their visit was incomplete and did not contain the month-end general ledger journal entries.

During their brief visit, the auditors met with the President/CEO, Vice President of Administration, CEO and Fiscal Manager to discuss the progress of their audit. If, during one of those meetings, they had mentioned this finding and/or concern, we would have gladly informed them that it was due to an un-posted month end grant receivable in excess of $1 million for one of our other major cost reimbursement programs. The posting of this receivable would have eliminated the loss shown in the balance sheet reviewed by the auditors. Under normal circumstances, the May month-end journal entries are performed following review of the general ledger by the Director of Finance and/or Fiscal Manager, and are normally completed within 30-45 days. However, due to the fiscal demands of the additional Head Start review and the OIG audit, as well as operating with a skeleton crew as a result of scheduled vacation leave, the fiscal staff was approximately 2 weeks behind their routine schedule.

Our draft audit report for the same program year shows current assets over $6 million vs. current liabilities under $5.7 million.

The decline in our fund balance during the past several years has been the result of annual depreciation expenses in excess of $100,000, which are a direct result of building expansions needed to provide continued services to the eligible Head Start and Early Head Start in our assigned geographic area However, due to the creation of a day care wrap around program for Head Start children in 2009, our draft audit report will have a increase in our fund balance for the fiscal year-ended 10/31/09.

Administration for Children and Families Disallowance

The Office of Inspector General's Report states that the Departmental Appeals Board for the Department of Health and Human Services partially upheld the disallowance in the amount of $995,427. This is incorrect. We disagree with this statement because the Departmental Appeals Board did not render an amount. In correspondence dated January 4, 2010 (see attached) the Departmental Appeals Board states that, "we reverse in part and affirmed in part the costs for FY2007 and remand the case to ACF to determine the allowable amount of PPCC's non-federal expenditures consistent with our determinations as to the types of documentation that are acceptable. As part of this process, ACF should consider information that PPCC provides as permitted in our decision. ACF should then recalculate the disallowance and, for any amount disallowed, issue a written notice of its calculation of the amount of non-federal expenditures and any resulting disallowance. PPCC may appeal the written determination to the Board within 30 days after receiving it, under the procedures at 45 C.F.R. Part 16, except with respect to the issues we fully resolve in this decision

The OIG report states that PPCC was unable to provide supporting documentation and therefore is required to refund the Federal Government the disallowed amount. We disagree with this statement because PPCC did submit additional supporting documentation to Region III on February 4, 2009 (see attached). In a letter dated February 9, 2010 to Nancy Elmore, Regional Program Manager, PPCC's attorney stated that he had hand delivered to the Regional Office additional documentation supporting PPCC's in-kind contributions for program year 2007. The case is still in the appeal process and no decision has been made regarding the disallowance.

The OIG report also states that PPCC does not have enough current assets to meet its current liabilities. We disagree with this statement because the Departmental Appeals Board has not rendered a decision; therefore an amount has not been determined. The case is still in the appeal process and no decision has been made regarding the disallowance.

In a letter dated February 24, 2009, from Patricia Brown, Acting Director, Office of Head Start, disallowing $1,383,595.02, ACF ignored the Departmental Appeal Board directive to clearly inform PPCC why the documentation was inadequate (see January 4, 2009 letter attached). The Board also noted that ACF never responded to PPCC's concern regarding the disallowances.

As a matter of record, it should be noted that PPCC requested a waiver for the required non-federal share from Nancy Elmore, Regional Program Manager, Region III. The request was denied. Based on the criteria established in the Head Start Act, a waiver can be granted based on meeting one of five criteria (see attached). PPCC met at least two of the criteria.

PPCC would like to note that as their Delegate Norris Square Civic Association (NSCA) had the responsibility for ensuring that the agency met the federal guidelines related to non-federal match in addition to other fiscal requirements of the grant. However, in spite of the fact that NSCA was cited numerous times in the OIG report, the agency was recently awarded over nine million dollars of ARRA funds. It would appear that if PPCC was being audited for the purpose of determining whether it was capable of managing ARRA funds, for which it did not apply, the OIG report should have concluded that NSCA did not have the ability to account for and manage Recovery Act funds based on their report. Considering the number of reviews and audits that PPCC underwent within an 18 month period at the request of the Nancy Elmore, Regional Program Manager, it appears that PPCC is being treated unfairly.

FISCAL STAFF

The OIG Reports in accordance with Section 642(i) of the Head Start Act that in order to receive funds under this subchapter a Head Start agency must document strong fiscal controls, including the employment of a well-qualified fiscal staff, etc. We disagree with this statement because all of the positions in the Fiscal Department were filled with the exception of the Director of Finance. PPCC was fortunate to have its former CFO available on a regularly scheduled weekly basis working as consultant. Incidentally the consultant worked as a consultant for , a contractor for ACF at Region III as a Fiscal Specialist. The advantages of having the former CFO assisting the Fiscal staff was that she was not only qualified to handle the fiscal needs of the agency, but also familiar with the organization's structure and the Head Start grant requirements. PPCC's Board and Executive Management staff was extremely comfortable with this arrangement, and confident that the agency's financial viability would not be compromised during the time that the agency searched for a qualified person to permanently fill the position. Please note that the consultant also helped to train the candidate once hired.

ACF's requirement that the Regional Office approve certain key positions delayed PPCC's hiring the candidate. Once PPCC's Personnel Committee had made their selection.of a candidate at their meeting on July 29, 2009 (see attached), we immediately sent the package to our program specialist for review and approval. We sent a follow-up e-mail to Joseph Mistretta, Program Specialist inquiring about the status of our request for approval on August 21, 2009 (see attached). We did not receive the letter approving the candidate until after September 8, 2009 when the letter was stamped by Region III..

ACCOUNTING SYSTEM CERTIFICATION

Finding:

Pursuant to 45 CFR 1301.13, grantees, upon request from the Department of Health and Human Services, shall submit an accounting system certification. This certification must be prepared by an independent auditor and must state that the accounting system or systems established by the grantee has appropriate internal controls for safeguarding assets, checking the accuracy and reliability of accounting data, and promoting operating efficiency.

The Center was unable to provide a current accounting system certification. In October, 2008, ACF requested that the Center, as a requirement to be removed from high risk status, obtain an independent accounting system certification. The Center has attempted to attain a certification, but the most recent independent accountant's report, dated February 2009, still cites several areas of material non-compliance and did not certify the Center's accounting system.

RESPONSE:

PPCC has corrected the accounting system non-compliances outlined in the independent auditing firm's (Milligan & Company, LLC) initial report dated February 13, 2009. Milligan & Company was engaged to perform a follow-up to the previous report to determine whether the findings noted in the report were still applicable.

Attached is a copy of the follow-up Certification Report issued by Milligan & Company on October 16, 2009. As you can, no instances of material non-compliance were noted.

IN-KIND VALUATION AND REPORTING

Finding:

Federal Regulations (45 CFR 74.23 (i) require supporting records for in-kind contributions from third parties. "(1)Volunteer services shall be documented and, to the extent feasible, supported by the same methods used by the recipient for its own employees, including time records. (2) The basis for determining the valuation for personal service, material, equipment, buildings and land shall be documented."

The Center did not value or account for the non-Federal matching portion of its budget in accordance with Federal regulations. As part of its Head Start program, the Center works with one delegate agency, Norris Square Civic Association, and three collaborative agencies: Associacion de Puertorriquenos en Marcha, Inc., Project Rainbow, and The Lighthouse. These agencies provide data to the Center on parent and volunteer activity for use in the Center's calculation of the non-Federal matching percentage. The data is collected on volunteer activity forms and transmitted to the Center.

Our review of volunteer activity forms for April through June 2009 found that the delegate and collaborative agencies did not maintain properly verified and certified volunteer activity forms. The Center did not ensure that the data from these forms, which the Center used as part of its non-Federal in-kind match calculation, was accurately recorded, compiled, and transmitted. Without accurate information documenting the time volunteers actually spent in Head Start activities, we were not able to determine whether the Center is correctly claiming volunteer involvement as part of its in-kind matching valuation.

Response:

During April, 2009 our Delegate and Collaborative Programs were provided with copies of our revised volunteer activity form approved by the Regional Office. All the required information to ensure compliance with Federal regulations 45 CFR 74.23(i) was incorporated into the form, including confirmation of appropriate signature and footing of calculations by the fiscal department. Training on evaluation and documentation was also provided by our Collaborative Monitoring Team and fiscal staff.

Because of the number of man-hours that would be needed to perform a 100% monthly verification of the volunteer forms generated by the Delegate alone, it was our plan to test samples of the volunteer activity forms during our fiscal monitoring visits in September, 2009.

IN-KIND VALUATION AND REPORTING
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However, since we were informed of this finding at the exit conference, all of the non-Federal match volunteer activity forms submitted by the Delegate and Collaborative partners for the fiscal year ended October, 2009 were reviewed by PPCC's fiscal staff to ensure that the data was accurately valued, recorded, compiled and calculated. Unsupported activity resulted in an adjustment to our general ledger.

REASONABLENESS OF EMPLOYEE COMPENSATION

The auditors report states that PPCC did not establish the reasonableness of employee compensation for the year 2009. Surveys presented did not provide comparable compensation for all positions.

Appendix B of the cost principles(2CFR,pt.230,App.B&8.c2) states that when the organization is predominantly engaged in federally-sponsored activities an in cases where the kind of employees required for the federal activities are not found in the organization's other activities, compensation for employees on Federally-sponsored work will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kin of employees involved.

INTRODUCTION

There was no salary survey available for the Head Start programs within the Philadelphia area. The Philadelphia Parent Child Center developed and provided the salary survey instrument for the Head Start Director's Alliance of Philadelphia and Vicinity for the 2007 compensation report.

The primary focus of the auditors report was concerned with the salary paid to the President/CEO and the Executive Vice President. These positions are mixed positions and provide the over all direction for the agency as well as oversight to Head Start and Early Head Start.

The President CEO is the corporate title which also served as the Head Start Director. The Executive Vice President is the corporate title also served as the Early Head Start Director. These positions provided administrative direction and oversight for their respective programs.

It was established in the 2007 compensation survey for the above positions that the compensation was indeed reasonable and in line with similar positions and in some cases the salaries were lower that those surveyed.

Salary Survey Process

For the 2007 survey, PPCC took the lead role by developing a Survey Instrument as an initial step. Salary surveys were not available for the Philadelphia Head Start programs. It was explained at the time the salary survey results were distributed to the Head Start Director's Alliance that "This year's (2007) survey is the initial attempt to create a compensation study that reflects the Head Start programs in the Greater Philadelphia area."

The Philadelphia Parent Child Center developed the survey instrument and was responsible for collecting and gathering the data. The survey reflected the programs within the Head Start Directors Alliance that provided input. (Exhibit A)

The Philadelphia Parent Child Center was instrumental in pushing for a state wide survey. The Executive Vice President had volunteered to help design the survey. It was later decided to contract out the Salary Survey process to a consulting organization.

O I G Audit/Review

The OIG audit/review took place in August 2009, one of five Reviews and/or Inspections within a year and half. PPCC was involved in the State wide salary survey during 2008. The state survey was published in March of 2009. The state wide survey does not accurately reflect the economic condition of the large urban areas. The survey reflects more the rural and county communities.

PPCC was involved in a Federal Review during that period. The wage data utilized during 2008 was still in effect. It was the intent of this organization to utilize the state survey data for the fall of 2009 since that was the start of the agency's fiscal year. (November 1st.)

Again the results of the statewide survey demonstrated that the salary allocated to the PPCC Head Start and Early Head Start directors were below those reported. (Exhibit B)

It was stated that the PPCC survey did not include all the agencies positions. Our survey was intended to study Bench Mark position since the various programs have titles that are relevant to their particular agencies. Those position not covered by the salary study could then be positioned utilizing the Classification Method. It was also explained at the time the 2007 survey was distributed that "In the future Job Titles will include a brief description of responsibilities so that the data can more closely reflect the actual duties performed verses simply attempting to "match up" job titles."

Conclusion

The Philadelphia Parent Child Center utilized the President/CEO and Executive Vice President in dual roles. The aforementioned titles are corporate title as the individuals manage the overall corporation. For Head Start the position served as the Head Start Director and Early Head Start Director respectively. There was no similar position within the Head Start Directors alliance survey report that hold the title President/CEO and Executive Vice President therefore we surveyed positions that reflected our roles within Head Start. It was indeed established that a salary allocation for the positions were reasonable.