July 21, 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 the Limited Scope Review at Maryland Rural Development Corporation (A-03-09-00371)

The attached final report provides the results of our limited scope review at Maryland Rural Development Corporation. 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-03-09-00371 in all correspondence.

Attachment

Department of Health & Human Services

OFFICE OF INSPECTOR GENERAL

RESULTS OF LIMITED SCOPE REVIEW AT MARYLAND RURAL DEVELOPMENT CORPORATION

Daniel R. Levinson
Inspector General

July 2010
A-03-09-00371

Office of Inspector General

http://oig.hhs.gov

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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.

Maryland Rural Development Corporation (Maryland Rural), a nonprofit agency established in 1984, operates a Head Start program that provides education, health, and social services to low-income pre-school children and their families at locations throughout Northeast and Central East Maryland. Maryland Rural also operates a transportation program and a town management program, and counsels and assists people in landlord/tenant relations.

Maryland Rural is funded primarily through Federal, State, and local government grants. For the period December 1, 2008, through November 30, 2009, ACF awarded grant funds to Maryland Rural totaling $3,130,367. In addition, Maryland Rural was awarded Recovery Act grant funds for the budget period June 1, 2009, through September 30, 2010, totaling $224,188 for cost-of-living increases and quality improvements.

OBJECTIVE

The objective of our limited scope review was to assess Maryland Rural’s financial viability, capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations.

SUMMARY OF FINDINGS

Based on our assessment, we believe that, generally, Maryland Rural is financially viable and has the capacity to manage and account for Federal funds and is capable of operating a Head Start program in accordance with Federal regulations. However, we identified weaknesses related to fixed asset records, encumbering of Head Start assets, procurement policies and procedures, and sharing of information with the Board of Directors.

RECOMMENDATION

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

GRANTEE'S COMMENTS

In its comments on our draft report, Maryland Rural concurred that its reconciliation between the physical inventory and fixed assets database was not documented in its entirety and stated that it has taken measures to correct this. Maryland Rural also stated that it has corrected all other noted deficiencies, but it did not provide details on the actions taken to correct the deficiencies. Maryland Rural's comments are included in their entirety as the Appendix.

TABLE OF CONTENTS

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 & Human Services (HHS), 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.

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Maryland Rural Development Corporation

Maryland Rural Development Corporation (Maryland Rural), a nonprofit agency established in 1984, operates a Head Start program that provides education, health, and social services to low-income pre-school children and their families at locations throughout Northeast and Central East Maryland. Maryland Rural also operates a transportation program and a town management program, and counsels and assists people in landlord/tenant relations.

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Federal Requirements

Pursuant to 45 CFR § 74.34(f), grantees are required to maintain equipment records that are accurate and include whether the title vests in the recipient or the Federal Government. Grantees must conduct a physical inventory and reconcile the physical inventory to the fixed asset records at least once every 2 years.

Pursuant to 45 CFR § 74.37, Head Start grantees are prohibited from encumbering assets, including real property, bought with Head Start funds without prior authorization from Head Start officials.

Pursuant to 45 CFR § 74.44(a), grantees are required to establish written procurement procedures to ensure that, where appropriate, an analysis is made of lease and purchase alternatives to determine which would be most economical and practical to the recipient and the Federal Government.

Section 642 (d)(2) of the Head Start Act requires Head Start agencies to ensure the sharing of accurate and regular information for use by the governing body and policy council about program planning, policies, and Head Start agency operations. This information must include any communications and guidance from the Secretary of HHS.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

We performed this review in response to an August 12, 2009, limited scope request from ACF. Therefore, we did not perform an overall assessment of Maryland Rural's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was August 1, 2008, through July 31, 2009.

We performed our fieldwork at Maryland Rural's administrative office in Annapolis, Maryland, during the period August through October 2009.

Methodology

To accomplish our objectives, we:

- reviewed relevant Federal laws, regulations, and guidance;

- reviewed Maryland Rural's Head Start application and supporting documentation;

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

- interviewed Maryland Rural's personnel to gain an understanding of its internal controls and its accounting system controls;

- reviewed Maryland Rural's fiscal procedures related to procurement, accounting documentation and preparation of financial reports;

- reviewed Maryland Rural's audited financial statements for fiscal years 2006 through 2008;

- reviewed Maryland Rural's timesheets, travel vouchers, invoices, cash receipts, and other supporting financial documents;

- reviewed Maryland Rural's fixed asset records; and

- reviewed Maryland Rural's Board of Directors composition, Board meeting minutes, and documentation provided to Board members during the meetings.

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, generally, Maryland Rural is financially viable and has the capacity to manage and account for Federal funds and is capable of operating a Head Start program in accordance with Federal regulations. However we identified weaknesses related to fixed asset records, encumbering of Head Start assets, procurement policies and procedures, and sharing of information with the Board of Directors.

FIXED ASSET RECORDS

Pursuant to 45 CFR § 74.34(f), grantees are required to maintain equipment records that are accurate and include information stating whether the title vests in the recipient or the Federal Government. Grantees must also conduct a physical inventory and reconcile the physical inventory to the fixed asset records at least once every 2 years.

Maryland Rural's fixed asset records, totaling $1,445,629, did not include information on whether the title to the listed fixed assets vested fully or partially in the Federal Government or Maryland Rural. In addition, Maryland Rural had not performed a reconciliation of its physical inventory to its fixed asset records in the 2 years prior to our audit. Maryland Rural conducted a physical inventory of its fixed assets in May 2009 but could not document any reconciliation to its fixed asset records. Our review found Head Start assets identified during the physical inventory that had never been included on the fixed asset records and assets that had been deleted from the fixed asset records although they still existed.

A reconciliation of the physical inventory to the fixed asset records would have corrected or explained these differences.

ENCUMBERING OF HEAD START ASSETS

Pursuant to 45 CFR § 74.37, grantees are required to receive prior authorization from ACF before encumbering assets, including real property, bought with Head Start funds.

Maryland Rural did not receive prior authorization from ACF before including a building purchased with Head Start funds as part of the collateral on a loan of $400,000. On March 28, 2008, Maryland Rural secured a $400,000 loan by encumbering two buildings that it owned: one building, purchased with Head Start funds, represented $50,000 of collateral on the loan and the other building, purchased with non-Head Start funds, represented $350,000 of collateral on the loan.

Maryland Rural officials indicated that they needed the loan to meet current obligations at that time. Maryland Rural had previously used successive year grant funds to pay prior year grant expenses. Its correction of the improper use of funds resulted in a temporary cash flow shortage, which it covered with the loan. The Maryland Rural Single Audit, dated December 31, 2007, determined that this lack of controls had been corrected and our review determined that Maryland Rural did not use successive year grant funds to pay prior year grant expenses during our review period.

We brought this weakness to the attention of Maryland Rural officials. Subsequent to our fieldwork, Maryland Rural successfully negotiated with the bank to release the encumbered building purchased with Head Start funds.

PROCUREMENT POLICIES AND PROCEDURES

Pursuant to 45 CFR § 74.44(a), grantees are required to establish written procurement procedures to ensure that, where appropriate, an analysis is made of lease and purchase alternatives to determine which would be most economical and practical to the recipient and the Federal Government. Maryland Rural established a procurement policy that required three verbal or written bids on all items over $500. Maryland Rural policy also had an exception for emergency purchases and situations where a vendor in the immediate vicinity sold a specific service at a price that no other vendor could feasibly match.

Maryland Rural did not always follow its own procurement policies and procedures. We reviewed nine purchases over $500 and found that Maryland Rural used its exception policy and did not require three bids for any of the nine. Maryland Rural was not required to obtain three bids for eight of the purchases because they fell under the exceptions in their policies and procedures. However, the remaining purchase did not meet the requirements for an exception because it was not related to an emergency and there was another vendor in the immediate vicinity that could match the price obtained by Maryland Rural.

SHARING OF INFORMATION WITH THE BOARD OF DIRECTORS

Section 642 (d)(2) of the Head Start Act requires grantees to ensure the sharing of accurate and regular information for use by the governing body and policy council, about program planning, policies, and Head Start agency operations. This information must include any communications and guidance from the Secretary of HHS.

Maryland Rural generally did not share communications and guidance from HHS with its Board of Directors. We reviewed Board meeting minutes and information handed out to the Board at the meetings held from December 2008 through July 2009. During this period, ACF issued five Information Memorandums that provided policy information and eight Program Instructions through the Office of Head Start that addressed specific requirements for Head Start programs. However, Maryland Rural did not include the HHS guidance in the information handed out at the meetings and the Board generally did not discuss or comment on the HHS guidance.

RECOMMENDATION

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

GRANTEE'S COMMENTS

In its comments on our draft report, Maryland Rural concurred that its reconciliation between the physical inventory and fixed assets database was not documented in its entirety and stated that it has taken measures to correct this. Maryland Rural also stated that it has corrected all other noted deficiencies, but it did not provide details on the actions taken to correct the deficiencies. Maryland Rural's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: GRANTEE'S COMMENTS

June 3, 2010

Mr. Leonard Piccari, Audit Manager

In response to your draft report of the limited scope review of Maryland Rural Development Corporation, I would like to comment further on the findings and recommendations as follows.

Fixed Assets Records

Maryland Rural Development's maintained two databases for its fixed assets in 2008 and 2009. The original database consisted of an Excel spreadsheet that divided the fixed assets into two major categories, "Grant Funded" and "Non Grant Funded." The Excel database was used to set up the corporation's fixed assets in a software program designed specifically for fixed assets. The new program incorporated a field that disclosed the funding source that the asset was funded by. Our understanding of the finding was that there was no percentage identified on the fixed asset schedule to show whether the asset was partially or entirely funded with federal funds.

We do concur that the reconciliation between the physical inventory and the database was not documented in its entirety. We have taken measures to correct this finding.

We found the limited scope review performed by your team to be very beneficial and we have corrected all other noted deficiencies.

Kevin Brooks, Executive Director