



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VI
1100 COMMERCE STREET, ROOM 632
DALLAS, TX 75242

August 1, 2012

Report Number: A-06-11-00036

Ms. Kimberly Chalk
Regional Program Manager, Region VI
Office of Head Start
Administration for Children and Families
U.S. Department of Health and Human Services
1301 Young Street, Suite 937 West
Dallas, TX 75202

Dear Ms. Chalk:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *William Smith, Sr., Tri-County Child Development Council, Inc.'s, Financial Management Practices and Systems Did Not Always Meet Federal Requirements*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (214) 767-8414 or contact Sylvie Witten, Audit Manager, at (512) 339-3071 or through email at Sylvie.Witten@oig.hhs.gov. Please refer to report number A-06-11-00036 in all correspondence.

Sincerely,

/Patricia Wheeler/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Kimberly Chalk
Regional Program Manager, Region VI
Office of Head Start
Administration for Children and Families
U.S. Department of Health and Human Services
1301 Young Street, Suite 937 West
Dallas, TX 75202

cc:

Ms. Ann Linehan
Deputy Director
Office of Head Start
Portals Building, Suite 8000
1250 Maryland Avenue, SW
Washington, DC 20024

Ms. Yolanda Wise
Head Start Program Specialist
Office of Head Start
Portals Building, Suite 8000
1250 Maryland Avenue, SW
Washington, DC 20024

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**WILLIAM SMITH, SR.,
TRI-COUNTY CHILD
DEVELOPMENT COUNCIL, INC.'S,
FINANCIAL MANAGEMENT
PRACTICES AND SYSTEMS DID
NOT ALWAYS MEET FEDERAL
REQUIREMENTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Patricia M. Wheeler
Regional Inspector General

August 2012
A-06-11-00036

Office of Inspector General

<http://oig.hhs.gov>

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

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

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

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major objectives of the Head Start program are to promote school readiness and to enhance the social and cognitive development of low-income children by providing educational, health, nutritional, and social services.

Within the U.S. Department of Health and Human Services, the Administration for Children and Families, Office of Head Start (OHS), administers the Head Start program. In fiscal year (FY) 2010, Congress appropriated \$7.2 billion to fund Head Start's regular operations.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, provided an additional \$2.1 billion for the Head Start program during FYs 2009 and 2010. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for employees of Head Start grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

William Smith, Sr., Tri-County Child Development Council, Inc. (the Council), a nonprofit agency, operates Head Start and Early Head Start programs that serve approximately 975 children from birth to age 5 and their families at various locations in Matagorda, Fort Bend, and Wharton counties in Texas. The Council is funded primarily through Federal Head Start grants. For program year March 1, 2010, through February 28, 2011, OHS awarded approximately \$9.3 million in Federal Head Start funds to the Council. From October 2009 through September 2010, the Council received approximately \$3.7 million in Recovery Act funding. The Council also received funds from the U.S. Department of Agriculture.

OBJECTIVE

Our objective was to determine whether the Council's financial management practices and systems met Federal requirements.

SUMMARY OF FINDINGS

The Council's financial management practices and systems did not always meet Federal requirements. Specifically, the Council:

- claimed \$27,000 in unsupported consultant services costs;
- misclassified Recovery Act, nontravel, and administrative costs in its accounting system;
- did not have adequate physical controls and did not adequately segregate duties in its accounting department;
- did not adequately segregate its procurement duties; and

- claimed \$31,613 in unallowable in-kind non-Federal share because it overstated volunteer services.

RECOMMENDATIONS

We recommend that OHS:

- require the Council to refund \$27,000 in unallowable costs for consultant services to the Federal Government and ensure that the Council maintains adequate records to support consultant services,
- ensure that the Council develops procedures to ensure that costs are classified correctly in the accounting system,
- ensure that the Council requires employees with access to the accounting software to have their own login names and passwords and segregates accounting duties in its accounting department,
- ensure that the Council develops and implements procedures for maintaining segregation of duties for its procurement of goods, and
- ensure that the Council claims volunteer hours for non-Federal share that are accurately counted.

COUNCIL COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the Council concurred with four of our five findings. Although the Council agreed that it did not keep proper documentation on the work performed by the consultant, it disagreed with repaying the \$27,000, stating that the consultant performed the work. In addition, the Council described the corrective actions it planned to take to address both the findings with which it concurred and the finding with which it disagreed. The Council's comments are included in their entirety as Appendix A. Nothing in the Council's comments caused us to change our findings or recommendations.

OFFICE OF HEAD START COMMENTS

In its written comments on our draft report, OHS concurred with our recommendations. OHS also noted that actions the Council described did not address certain aspects of the Council's accounting and procurement systems related to segregation of duties. OHS's comments are included in their entirety as Appendix B.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Head Start Program.....	1
William Smith, Sr., Tri-County Child Development Council, Inc	1
Federal Requirements	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective	1
Scope.....	2
Methodology.....	2
FINDINGS AND RECOMMENDATIONS	3
INADEQUATE DOCUMENTATION FOR CONSULTANT SERVICES	3
COST MISCLASSIFICATIONS	3
INADEQUATE INTERNAL CONTROLS OVER THE ACCOUNTING DEPARTMENT	4
LACK OF PROCUREMENT PROCEDURES	4
IN-KIND VOLUNTEER SERVICES	5
RECOMMENDATIONS	5
COUNCIL COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	5
OFFICE OF HEAD START COMMENTS	6
APPENDIXES	
A: COUNCIL COMMENTS	
B: OFFICE OF HEAD START COMMENTS	

INTRODUCTION

BACKGROUND

Head Start Program

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major objectives of the Head Start program are to promote school readiness and to enhance the social and cognitive development of low-income children by providing educational, health, nutritional, and social services.

Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families, Office of Head Start (OHS), administers the Head Start program. In fiscal year (FY) 2010, Congress appropriated \$7.2 billion to fund Head Start's regular operations.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, provided an additional \$2.1 billion for the Head Start program during FYs 2009 and 2010. These funds were intended for activities such as expanding enrollment, funding cost-of-living increases for employees of Head Start grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

William Smith, Sr., Tri-County Child Development Council, Inc.

William Smith, Sr., Tri-County Child Development Council, Inc. (the Council), a nonprofit agency, operates Head Start and Early Head Start programs that serve approximately 975 children from birth to age 5 and their families at various locations in Matagorda, Fort Bend, and Wharton counties in Texas. The Council is funded primarily through Federal Head Start grants. For program year March 1, 2010, through February 28, 2011, OHS awarded approximately \$9.3 million in Federal Head Start funds to the Council. From October 2009 through September 2010, the Council received approximately \$3.7 million in Recovery Act funding. The Council also received funds from the U.S. Department of Agriculture.

Federal Requirements

Federal regulations (45 CFR part 74) establish uniform administrative requirements governing HHS agreements and HHS grants awarded to nonprofit organizations. Head Start regulations at 45 CFR parts 1301 and 1304 establish program administration, grants management, and program performance requirements for all Head Start grants.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Council's financial management practices and systems met Federal requirements.

Scope

We performed this review based on a request from OHS. We did not perform an overall assessment of the Council's internal control structure. We reviewed only those internal controls directly related to our audit objective. Our review period was the Council's FY 2010 and its Recovery Act funding period from October 2009 through September 2010.

We performed our fieldwork at the Council's administrative office in Richmond, Texas.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed the Council's procedures related to accounting documentation, procurement, and preparation of financial reports and interviewed Council officials to gain an understanding of those procedures;
- reviewed grant award documentation to determine the Council's Head Start and Recovery Act funding;
- reviewed Head Start's triennial review of the Council, issued April 25, 2010, and the followup review issued February 11, 2011;
- reviewed the Council's transaction listing,¹ timesheets, invoices, bank reconciliations, and other supporting documentation for the audit period;
- reviewed 20 payments (totaling \$199,971) judgmentally selected from the transaction listing for the audit period;
- reviewed the Council's volunteer activity forms for the FY ended February 28, 2011;
- reviewed lease agreements, operating agreements, memorandums of understanding, appraisals, monthly volunteer hour summary schedules, volunteer service timesheets, and other supporting documentation for the non-Federal share amounts; and
- reviewed the composition of the Council's board of directors and the board meeting minutes.

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

¹ The transaction listing report showed all of the Council's transactions for its Head Start operating account during the audit period.

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 RECOMMENDATIONS

The Council's financial management practices and systems did not always meet Federal requirements. Specifically, the Council:

- claimed \$27,000 in unsupported consultant services costs;
- misclassified Recovery Act, nontravel, and administrative costs in its accounting system;
- did not have adequate physical controls and did not adequately segregate duties in its accounting department;
- did not adequately segregate its procurement duties; and
- claimed \$31,613 in unallowable in-kind non-Federal share because it overstated volunteer services.

INADEQUATE DOCUMENTATION FOR CONSULTANT SERVICES

Pursuant to 45 CFR § 74.21(b)(7), financial management systems must provide accounting records that are supported by source documentation.

The Council claimed \$27,000 in unsupported consultant services. The Council contracted with a consultant to provide management and program design services. We requested documentation to support the consultant costs claimed, but the Council was unable to provide a contract for the services to be rendered or support for the actual services provided. According to the Council, the consultant reimbursed the \$27,000 payment. However, the Council did not provide adequate documentation to support the \$27,000 reimbursement and did not account for the reimbursement in its accounting system.

COST MISCLASSIFICATIONS

Pursuant to 45 CFR § 74.21(b)(1), financial management systems must provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program.

The Council misclassified Recovery Act, nontravel, and administrative costs in its accounting system. Specifically,

- The Council posted an \$11,100 payment to a non-Recovery Act Head Start account for an accounting consultant that performed Recovery Act work.

- The Council posted a credit card payment totaling \$3,357 to its local travel account. However, the invoice included at least \$1,108 in charges for nontravel items, including Internet service, cable television, electronics, software, and a magazine subscription.
- The Council posted consultant payments totaling \$66,649 to the Head Start salaries account as program costs. The Council should have charged these payments to an administrative costs account because the contract stated that the work was for its human resources department.

As a result of these misclassifications, the Council could not guarantee the accuracy of its financial data.

INADEQUATE INTERNAL CONTROLS OVER THE ACCOUNTING DEPARTMENT

Pursuant to 45 CFR § 74.21(b)(3), financial management systems must provide for effective control over and accountability for all funds, property, and other assets. Head Start grantees are specifically required to establish and implement internal controls to safeguard Federal funds (45 CFR §§ 1304.50(g)(2) and 1301.13(a)).

The Council lacked adequate internal controls over its accounting department, including physical controls and segregation of duties.

The chief financial officer (CFO) and the fiscal officer used the same login name and password to access the accounting software and had unlimited access to all of the accounting modules, including accounts payable, accounts receivable, payroll, and general ledger. The Council should have required each user to have his or her own login name and password to ensure proper physical controls.

The CFO had check-writing privileges, unlimited access to the accounting system, and responsibility for monthly bank reconciliations. He also opened and logged the Council's incoming mail. Allowing the same individual to perform all of these functions increases the opportunity for that individual to divert assets. For internal controls over the accounting department to be effective, these duties should be segregated among different individuals.

LACK OF PROCUREMENT PROCEDURES

Pursuant to 45 CFR § 74.21(b)(3), financial management systems must provide for effective control over and accountability for all funds, property, and other assets. Head Start grantees are specifically required to establish and implement internal controls to safeguard Federal funds (45 CFR §§ 1304.50(g)(2) and 1301.13(a)).

The Council did not have procedures to ensure segregation of duties related to procuring goods. Individual warehouse employees could place orders, receive orders, and adjust inventory records. For internal controls over the procurement of goods to be effective, these duties should be segregated among different individuals. Allowing the same individual to perform all functions increases the opportunity for that individual to divert funds or goods.

IN-KIND VOLUNTEER SERVICES

Pursuant to 45 CFR § 1301.20, grantees generally are to provide 20 percent of the total cost of the program through non-Federal share. Pursuant to 45 CFR § 74.23(a), to be acceptable, matching contributions must be necessary and reasonable for proper and efficient accomplishment of program objectives and be verifiable from the recipient's records.

The Council was required to provide \$2,339,316 in non-Federal share for its 2010 FY. The Council included \$31,613 in unallowable in-kind contributions because it overstated volunteer service hours for its Bay City facility. The Council claimed 4,227 volunteer hours for this facility on its February 2011 Volunteer Hours summary schedule. However, only 2,091 volunteer service hours were recorded on the February 2011 "IN-KIND VOLUNTEER TIME SHEET" forms for Bay City. We are not recommending repayment because the Council documented in-kind contributions in excess of its required match.

RECOMMENDATIONS

We recommend that OHS:

- require the Council to refund \$27,000 in unallowable costs for consultant services to the Federal Government and ensure that the Council maintains adequate records to support consultant services,
- ensure that the Council develops procedures to ensure that costs are classified correctly in the accounting system,
- ensure that the Council requires employees with access to the accounting software to have their own login names and passwords and segregates accounting duties in its accounting department,
- ensure that the Council develops and implements procedures for maintaining segregation of duties for its procurement of goods, and
- ensure that the Council claims volunteer hours for non-Federal share that are accurately counted.

COUNCIL COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the Council concurred with four of our five findings. Although the Council agreed that it did not keep proper documentation on the work performed by the consultant, it disagreed with repaying the \$27,000, stating that the consultant performed the work. In addition, the Council described the corrective actions it planned to take to address both the findings with which it concurred and the finding with which it disagreed. The Council's comments are included in their entirety as Appendix A.

The Council was unable to provide a contract for the services to be rendered or support for the actual services provided. In addition, the Council did not provide adequate documentation to support the \$27,000 reimbursement and did not account for the reimbursement in its accounting system. Therefore, we did not change our finding or our recommendation.

OFFICE OF HEAD START COMMENTS

In its written comments on our draft report, OHS concurred with our recommendations. OHS also noted that actions the Council described did not address certain aspects of the Council's accounting and procurement systems related to segregation of duties. OHS's comments are included in their entirety as Appendix B.

APPENDIXES

APPENDIX A: COUNCIL COMMENTS



William Smith, Sr., Tri-County Child Development Council, Inc.

500 Austin Street, Richmond, Texas 77469
P.O. Box 1929, Stafford, Texas 77497
Tel: 281.239.3414 • Fax: 281.239.0465
www.wsstricounty.org

May 17, 2012

Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region VI
1100 Commerce Street, Room 632
Dallas, TX 75242

Report Number: A-06-11-00036

- **NON CONCURRENCE:** William Smith Sr. Tri-County Child Development Council Inc. disagrees with the repayment of \$27,000 because the work was actually performed. However, we agree that proper documentation was not kept regarding the work done by the Contractor.

WSS Tri-County CDC Inc. has strengthened its policies and implemented the following procedures:

Assigned written agreements with independent contractors specifying the services to be provided, payment terms, deadlines, etc. WSS Tri-County has establish a file for each independent contractor including contacts, invoices, and other information documenting that the worker is operating as an independent contractor. If the independent contractor will be paid with federal funds, WSS Tri-County CDC Inc. will always follow (and document) required procurement procedures. WSS Tri-County CDC Inc. will obtain taxpayer identification numbers for any unincorporated independent contractor to whom the Agency pays more than \$600 in a year, and file an IRS Form 1099.

- **CONCURRENCE:** WSS Tri-County CDC Inc. has developed, implemented and trained the accounts payable staff on how to correctly classify codes/costs in the accounting system. Invoices and related general ledger account distribution codes are reviewed by the Chief Financial Officer prior to posting to the accounts payable system.
- **CONCURRENCE:** The Chief Financial Officer of WSS Tri-County CDC Inc. has assigned passwords to accounting staff to restrict access to accounting software and data. Only duly authorized accounting personnel with data input responsibilities will be assigned passwords from the Chief Financial Officer that allow access to the system.



partnering for children.

Each password enables a user to gain access to only the software and data files necessary for each employee's required duties. Accounting personnel are expected to keep their passwords secret and to change their passwords on a regular basis, no less frequently than quarterly.

Accounting duties are segregated so that only accounting employees will be performing those duties for which they are responsible. The Chief Financial Officer and Fiscal Officer have different passwords to access the accounting software.

- **CONCURRENCE:** WSS Tri-County CDC Inc. has strengthened its Procurement System to include procedures for maintaining segregation of duties as it relates to procurement of goods and services. The following procedures are in place:

The originator/requestor shall prepare and submit a PR to their supervisor for approval. All supporting documentation must be attached with the PR.

The originator/requestor must ensure that the PR includes the following:

1. Vendor: Complete name and address
2. Date: Enter date PR to be originated
3. Program Name: Program to be billed for the purchase. i.e. (HS, EHS, etc.)
4. Quantity: Enter the number of items requested
5. Item Description: Describe the items requested, code/catalog number, etc. Always being detailed as possible.
6. Unit Price: Enter the cost of the item requested.
7. Total: Enter the total of the unit price times the quantity requested.
8. Total Amount: Enter the total dollar amount represented on the PR.
9. Signatures:
 - Requestor: shall be signed by individual initiating the PR
 - Supervisor: shall be signed approving PR
 - Executive Director: shall be signed approving PR
 - Chief Financial Officer: shall be signed signifying funds are available for purchase

Prior to approval the Executive Director reviews the request to determine if the request is allocable, reasonable and allowable.

If bids/price quotes are required, documentation is attached.

The Chief Financial Officer verifies if funds are available in the program budget.

If all matters are approved, a purchase order number is assigned by the Chief Financial Officer.

The Chief Financial Officer has final approval.

Upon completion, the Finance Department sends a copy of the approved PR/PO to the Procurement Department for purchasing.

If the PR is not approved, the Chief Financial Officer returns the requisition to the Supervisor who submitted the request giving an explanation as to why the purchase cannot be made at the time requested.

The Chief Financial Officer monitors the procurement procedures on a quarterly basis.

- **CONCURRENCE:** WSS Tri-County CDC Inc. has developed and implemented procedures to document in-kind that gives a description of services or goods provided. Hours are calculated at the center level by the classroom teacher. The in-kind form is verified and signed by the Center Manager. The in-kind is forwarded to the Family and Community Engagement staff responsible for collecting, verifying and documenting in-kind for accuracy. The completed in-kind form is then submitted to the Chief Financial Officer for final verification. A report of contributions received by WSS Tri-County CDC Inc. Head Start/Early Head Start is made monthly on the financial statement. Records of donated services by various volunteers are maintained to support the financial statement.

Sincerely,

Helen R. Wright
Executive Director

APPENDIX B: OFFICE OF HEAD START COMMENTS



ADMINISTRATION FOR
CHILDREN & FAMILIES

1301 Young Street, Room 937, Region VI, Dallas, Texas 75202 www.acf.hhs.gov

Date: June 25, 2012

To: Patricia Wheeler
Regional Inspector General for Audit Services

From: Kimberly Chalk *Abraham Drake*
Regional Program Manager
Office of Head Start
for
Ray Bishop, Grants Officer
Office of Grants Management *Ray Bishop*

Subject: Report Number A-06-11-00036

The Office of Inspector General (OIG), Office of Audit Services, provided the draft audit report for William Smith, Sr. Tri-County Child Development Council, Inc. (The Council), Report Number A-06-11-00036 to the Department of Health and Human Services (DHHS), Administration for Children and Families (ACF), Office of Head Start (OHS) for comments on June 8, 2012. The audit report examined expenditures under grants awarded to The Council, specifically Grant Numbers 06CH0387, 06SE0387, 06SA0387, and 06SH0387. The five recommendations identified in the draft audit report are addressed below.

Recommendation 1:

The draft audit report recommends OHS require The Council to refund \$27,000 in unallowable costs for consultant services to the Federal Government and ensure the Council maintains adequate records to support consultant services.

OHS and the Office of Grants Management (OGM) concur with this recommendation.

Recommendation 2:

The draft audit report recommends OHS require The Council develop procedures to ensure that costs are classified correctly in the accounting system.

OHS and OGM concur with this recommendation. The Council's response to this recommendation does not appear to address correction of previous erroneous classification in its accounting system.



ADMINISTRATION FOR
CHILDREN & FAMILIES

Patricia Wheeler – Page 2
Report Number A-06-11-00036

Recommendation 3:

The draft report recommends OHS ensures that the Council requires employees with access to the accounting software to have their own login names and passwords and segregate duties within its accounting department. On Page 4 of the OIG draft report a statement reads, “Inadequate Internal Controls over the Accounting Department”...The CFO had check-writing privileges, unlimited access to the accounting system, and responsibility for monthly bank reconciliations. He also opened and logged the Council’s incoming mail...For internal controls over the accounting department to be effective, these duties should be segregated among different individuals.”

OHS and OGM concur with this recommendation. The Council’s response to this finding only addresses the issuance of passwords to accounting staff. The response does not address the segregation of duties related to opening mail, writing checks, access to the accounting system, and monthly bank reconciliations.

Recommendation 4:

The draft report recommends OHS ensures that the Council develops and implements procedures for maintaining segregation of duties for its goods. The report also states “The Council did not have procedures to ensure segregation of duties related to procuring goods. Individual warehouse employees could place orders, receive orders, and adjust inventory records.

OHS and OGM concur with this recommendation. The Council’s response addresses the process for purchasing/procuring of goods. However, it does not address segregation of duties related to ordering, receiving, and adjusting inventory records of the corporation.

Recommendation 5:

The draft report recommends OHS ensures that the Council claims volunteer hours for non-Federal share are accurately counted.

OHS and OGM concur with this recommendation.

Thank you for the opportunity to comment.