



February 22, 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 Mid-Columbia Children's Council, Inc., for
the Head Start and Early Head Start Programs (A-09-09-00097)

The attached final report provides the results of our limited-scope review of Mid-Columbia Children's Council, Inc. (Mid-Columbia), for the Head Start and Early Head Start programs. The Administration for Children and Families (ACF), Office of Head Start, requested this review 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 (Recovery Act).

President Obama signed the Recovery Act into law on February 17, 2009. The Recovery Act includes measures to modernize our Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. All Federal agencies and Departments receiving Recovery Act funds must maintain strong internal controls and implement oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

The objectives of our limited-scope review were to determine whether (1) Mid-Columbia is fiscally viable and (2) Mid-Columbia's financial management system adequately managed and accounted for Federal funds.

Mid-Columbia is fiscally viable. In addition, Mid-Columbia's financial management system adequately managed and accounted for Federal funds except for its systems and internal controls related to property management. Specifically, Mid-Columbia did not perform a physical

inventory of its equipment at least once every 2 years as required by Federal regulations, and Mid-Columbia's equipment inventory records did not contain all required information. In written comments on our draft report, Mid-Columbia acknowledged that it did not complete a physical inventory of its equipment in the past 2 years as required by Federal regulations. Mid-Columbia provided information on corrective action that it planned to take to improve its systems and internal controls related to property management.

In determining whether Mid-Columbia should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing Mid-Columbia's financial condition.

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-09-09-00097 in all correspondence.

Attachment

Nancy Hutchins
Regional Program Manager, Region X
Office of Head Start
Nancy.Hutchins@acf.hhs.gov

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED-SCOPE REVIEW
AT MID-COLUMBIA
CHILDREN'S COUNCIL, INC.,
FOR THE HEAD START AND
EARLY HEAD START PROGRAMS**



Daniel R. Levinson
Inspector General

February 2010
A-09-09-00097

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

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, Head Start (including Early Head Start) is a national program that promotes school readiness by enhancing the cognitive, social, and emotional development of children through the provision of health, educational, 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. Head Start provides grants to local public and private nonprofit and for-profit agencies to deliver comprehensive child development services to economically disadvantaged children and families. Early Head Start promotes healthy prenatal outcomes, enhances the development of infants and toddlers, and promotes healthy family functioning.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, 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.

Mid-Columbia Children's Council, Inc. (Mid-Columbia), a nonprofit agency, operates the Head Start and Early Head Start programs, which serve infants, toddlers, preschool-aged children, pregnant women, and families. Programs are located in Hood River, Wasco, and Jefferson Counties in Oregon and in Skamania and Klickitat Counties in Washington. The agency was formed in 1987 to provide Head Start services in the Mid-Columbia region.

Mid-Columbia is funded primarily through Federal and State grants. For the fiscal year ended November 30, 2008, ACF directly provided grant funds to Mid-Columbia totaling \$3,528,745 for its Head Start and Early Head Start programs.

Mid-Columbia was awarded Recovery Act grant funds for the budget period July 1, 2009, through September 30, 2010, totaling \$261,234 for cost-of-living increases and quality improvement.

OBJECTIVES

The objectives of our limited-scope review were to determine whether (1) Mid-Columbia is fiscally viable and (2) Mid-Columbia's financial management system adequately managed and accounted for Federal funds.

SUMMARY OF FINDINGS

Mid-Columbia is fiscally viable. In addition, Mid-Columbia's financial management system adequately managed and accounted for Federal funds except for its systems and internal controls

related to property management. Specifically, Mid-Columbia did not perform a physical inventory of its equipment at least once every 2 years as required by Federal regulations, and Mid-Columbia's equipment inventory records did not contain all required information.

RECOMMENDATION

In determining whether Mid-Columbia should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing Mid-Columbia's financial condition.

MID-COLUMBIA COMMENTS

In written comments on our draft report, Mid-Columbia acknowledged that it did not complete a physical inventory of its equipment in the past 2 years as required by Federal regulations. Mid-Columbia provided information on corrective action that it planned to take to improve its systems and internal controls related to property management. Mid-Columbia's comments are included in their entirety as the Appendix.

TABLE OF CONTENTS

INTRODUCTION.....1

BACKGROUND1

 Head Start Program.....1

 Mid-Columbia Children’s Council, Inc.1

 Requirements for Federal Grantees2

OBJECTIVES, SCOPE, AND METHODOLOGY2

 Objectives2

 Scope.....2

 Methodology2

FINDINGS AND RECOMMENDATION.....3

**INADEQUATE SYSTEMS AND INTERNAL CONTROLS FOR
 PROPERTY MANAGEMENT**3

RECOMMENDATION4

MID-COLUMBIA COMMENTS4

APPENDIX

MID-COLUMBIA CHILDREN’S COUNCIL, INC., COMMENTS

INTRODUCTION

BACKGROUND

Head Start Program

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, Head Start (including Early Head Start) is a national program that promotes school readiness by enhancing the cognitive, social, and emotional development of children through the provision of health, educational, 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.

Head Start provides grants to local public and private nonprofit and for-profit agencies to deliver 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. Early Head Start promotes healthy prenatal outcomes, enhances the development of infants and toddlers, and promotes healthy family functioning. Local Head Start programs engage parents in their children's learning and emphasize parental involvement in program administration.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, 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.

Mid-Columbia Children's Council, Inc.

Mid-Columbia Children's Council, Inc. (Mid-Columbia), a nonprofit agency, operates the Head Start and Early Head Start programs, which serve infants, toddlers, preschool-aged children, pregnant women, and families. Programs are located in Hood River, Wasco, and Jefferson Counties in Oregon and in Skamania and Klickitat Counties in Washington. The agency was formed in 1987 to provide Head Start services in the Mid-Columbia region. It has since expanded its early childhood education programs and learning centers to meet community needs.

Mid-Columbia is funded primarily through Federal and State grants. For the fiscal year ended November 30, 2008, ACF directly provided grant funds to Mid-Columbia totaling \$3,528,745 for its Head Start and Early Head Start programs. In addition, Mid-Columbia received U.S. Department of Agriculture passthrough funding for its Child Care Food program from Oregon totaling \$93,897 and from Washington totaling \$62,354. Mid-Columbia also received State grants for its Head Start program from the Oregon Department of Education totaling \$649,977 and from the Washington Department of Community Development totaling \$130,922.

Mid-Columbia was awarded Recovery Act grant funds for the budget period July 1, 2009, through September 30, 2010, totaling \$261,234 for cost-of-living increases and quality improvement.

Requirements for Federal Grantees

Pursuant to 45 CFR § 74.21, grantees are required to maintain financial management systems that contain written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. Grantees must maintain accounting records that are supported by source documentation and must maintain financial systems that provide for accurate and complete reporting of grant-related financial data. Grantees are also required to compare outlays with budget amounts for each award and may use grant funds only for authorized purposes.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our limited-scope review were to determine whether (1) Mid-Columbia is fiscally viable and (2) Mid-Columbia's financial management system adequately managed and accounted for Federal funds.

Scope

We conducted our audit for the limited purpose described in the objectives; thus, the audit would not necessarily have disclosed all material weaknesses. Accordingly, we do not express an opinion on Mid-Columbia's overall system of internal accounting controls. We performed limited tests and other auditing procedures on Mid-Columbia's financial management system to assess its ability to administer federally funded projects.

We conducted our fieldwork in July 2009, which included a visit to Mid-Columbia's administrative office in Hood River, Oregon.

Methodology

To accomplish our objectives, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Mid-Columbia's fiscal procedures related to accounting documentation and preparation of financial reports;
- obtained selected Federal grant award documentation to determine Mid-Columbia's Federal funding;

- reviewed Mid-Columbia's audited financial statements for the fiscal years ended November 30, 2006, through November 30, 2008;
- reviewed Mid-Columbia's expense accounts, unaudited financial statements for the 7-month period ended June 30, 2009, and financial status reports (SF-269) for the fiscal year ended November 30, 2008; and
- performed liquidity and stability analyses of Mid-Columbia's financial records.

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 objectives.

FINDINGS AND RECOMMENDATION

Mid-Columbia is fiscally viable. In addition, Mid-Columbia's financial management system adequately managed and accounted for Federal funds except for its systems and internal controls related to property management. Specifically, Mid-Columbia did not perform a physical inventory of its equipment at least once every 2 years as required by Federal regulations, and Mid-Columbia's equipment inventory records did not contain all required information.

INADEQUATE SYSTEMS AND INTERNAL CONTROLS FOR PROPERTY MANAGEMENT

Mid-Columbia did not maintain adequate systems and internal controls for property management in accordance with 45 CFR § 74.34(f) and Office of Management and Budget Circular A-110 (2 CFR part 215), subpart C, section __.34(f). These regulations identify the following required property management standards for equipment acquired with Federal funds and federally owned equipment:

- accurate equipment records, including a description of the equipment, an identification number, the acquisition date, and the condition of the equipment;
- proper identification of equipment owned by the Federal Government;
- physical inventory and reconciliation of equipment records at least once every 2 years;
- a control system to ensure adequate safeguards to prevent loss, damage, or theft of the equipment;
- adequate maintenance procedures; and

- proper sales procedures, which provide for competition and result in the highest possible return.

Mid-Columbia did not perform a physical inventory of its equipment at least once every 2 years as required by Federal regulations. In addition, Mid-Columbia's equipment inventory records did not contain all required information. Specifically, the records for computer equipment did not identify the Federal award number, serial number or other identification number, acquisition date, or condition of the equipment (including the date that this information was reported).

In general, Mid-Columbia had policies and procedures to comply with the property management regulations; however, Mid-Columbia's management did not ensure that these policies and procedures were followed. Because Mid-Columbia did not perform a physical inventory of its equipment at least once every 2 years and maintain adequate equipment management systems, Mid-Columbia is unable to provide current information about the existence, use, and condition of its federally funded equipment which totaled \$741,094 as of the fiscal year ended November 30, 2008.

RECOMMENDATION

In determining whether Mid-Columbia should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing Mid-Columbia's financial condition.

MID-COLUMBIA COMMENTS

In written comments on our draft report, Mid-Columbia acknowledged that it did not complete a physical inventory of its equipment in the past 2 years as required by Federal regulations. Mid-Columbia provided information on corrective action that it planned to take to improve its systems and internal controls related to property management. Mid-Columbia's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: MID-COLUMBIA CHILDREN'S COUNCIL, INC., COMMENTS



October 30, 2009



U.S. Department of Health and Human Services
Office of Inspector General
Region IX
Office of Audit Services
90 - 7th Street, Suite 3-650
San Francisco, CA 94103



RE: "Results of Limited-Scope Review at Mid-Columbia Children's Council, Inc."
Written Response to Draft Report Submitted October 27, 2009

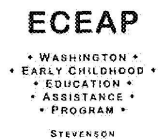
FINDING – Inadequate systems and internal controls for property management

AUDIT RESULTS PER REPORT:

Mid-Columbia Children's Council did not perform a physical inventory of its equipment at least once every 2 years as required by Federal regulations. In addition, Mid-Columbia's equipment inventory records did not identify the Federal award number, serial number or other identification number, acquisition date, or condition of the equipment (including the date that this information was reported).



In general, Mid-Columbia had policies and procedures to comply with the property management regulations; however, Mid-Columbia's management did not ensure that these policies and procedures were followed. Because Mid-Columbia did not perform a physical inventory of its equipment at least once every 2 years and maintain adequate equipment management systems, Mid-Columbia is unable to provide current information about the existence, use, and condition of its federally funded equipment which total \$741,094 as of the fiscal year ended November 30, 2008.



RESPONSE:

Mid-Columbia Children's Council acknowledges that a physical inventory of its equipment was not completed in the past 2 years as required by Federal regulations. Subsequent to the completion of the field work for the audit by the Office of Inspector General, records were located and indicate the last complete physical inventory that included all the required information was taken May 12, 2005.

Mid-Columbia Children's Council, Inc.'s Fiscal Policies and Procedures Manual state that "For purposes of Federal award accounting and administration, 'equipment' shall include all assets with a unit cost equal to or greater than \$5,000." It further states that "The results of the physical inventory shall be reconciled to the accounting records of and Federal Reports filed by MCCC." All capitalized assets are maintained in the special property and equipment account group and are not included as an operating expense. Property and equipment are depreciated over their estimated useful lives using the straight-line method. For the year ending November 30, 2008, MCCC reported Vehicles and Equipment of \$741,094 and depreciation expense of \$156,781.

A detail asset listing in support of the \$741,094 reported in "Vehicles and Equipment" exists; however computer equipment referenced in the audit results are properly excluded because the unit costs are less than \$5,000.

CORRECTIVE ACTION:

MCCC accepts the recommendation to take corrective action to improve its management systems and internal controls related to property management. The Agency will be able to provide current information about the existence, use, and condition of its federally funded equipment which totaled \$741,094 as of fiscal year ended November 30, 2008 plus additions during the fiscal year ended November 30, 2009 at the completion of a physical inventory scheduled for completion by December 31, 2009.

An updated Accounting & Financial Policies and Procedures Manual, presently in draft form and expected to be approved by Policy Council and the Board of Directors by early December, reaffirms MCCC's commitment to compliance with 45 CFR 74.34(f)(1) and 45 CFR 74.34(f)(3). All staff members of the fiscal department have been with MCCC less than one year and as such, are scheduled to attend a training conference of "Head Start Issues" presented by Wipfli CPA's and Consultants November 3 through November 5, 2009.

Sincerely,

Matthew Solomon

Matthew Solomon
Executive Director