



DEC 19 2002

Office of Audit Services  
Region I  
John F. Kennedy Federal Building  
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CIN: A-01-02-02500

Mr. Paul Puzzo, President, CEO  
Community Renewal Team, Inc.  
555 Windsor Street  
Hartford, Connecticut 06120

Dear Mr. Puzzo:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services report entitled, "Review of Enrollments Under The Head Start Program Administered By The Community Renewal Team, Inc. – January 1, 1999 Through December 31, 2001." A copy of this report will be forwarded to the action official named below for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the action 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.

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To facilitate identification, please refer to Common Identification Number A-01-02-02500 in all correspondence relating to this report.

Sincerely yours,

  
Michael J. Armstrong  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Direct Reply to HHS Action Official:**

Hugh F. Galligan, Regional Administrator  
Administration for Children and Families  
U.S. Department of Health and Human Services  
Room 2000, JFK Federal Building  
Boston, Massachusetts 02203

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF ENROLLMENTS UNDER  
THE HEAD START PROGRAM  
ADMINISTERED BY THE COMMUNITY  
RENEWAL TEAM, INC.  
JANUARY 1, 1999 THROUGH  
DECEMBER 31, 2001**



**JANET REHNQUIST**  
Inspector General

**DECEMBER 2002**  
A-01-02-02500

# ***Office of Inspector General***

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# **EXECUTIVE SUMMARY**

## **BACKGROUND**

The Head Start program is a discretionary grant program administered by the Administration for Children and Families (ACF) designed to promote school readiness by enhancing the social and cognitive development of low-income children. The Community Renewal Team, Inc. (CRT), an anti-poverty agency serving people and families throughout the Connecticut River Valley, and its delegate agencies in Manchester, East Hartford, Enfield, and Bristol received about \$28.9 million in Head Start funding during the period January 1, 1999 through December 31, 2001. One of the major factors for determining federal funding levels of Head Start grants is the expected number of children to be enrolled in the grantee's program. During this and earlier periods, ACF program reviews and CRT enrollment reports showed that CRT consistently did not meet its funded enrollment levels. In the 2000 and 2001 grant years, ACF restricted CRT's federal grant by limiting federal cash withdrawals and holding back about \$1.3 million of the grant award until CRT could demonstrate improved enrollment. However, CRT did not meet the established levels. Because of CRT's continued under enrollment of the program, ACF Regional Office requested an Office of the Inspector General (OIG) Office of Audit Services audit of CRT's enrollment for grant years 1999 through 2001 to determine the extent of under enrollment (short-falls) at CRT.

## **OBJECTIVES**

The objectives of the review were to evaluate CRT's enrollment and attendance levels for the 3-year period January 1999 through December 2001, and the effect on federal funding.

## **SUMMARY OF FINDINGS**

Our review of CRT's Head Start enrollment over the 3-year period from January 1, 1999 through December 31, 2001, disclosed that CRT missed a total of 924 (22 percent) of its enrollment opportunities. One of the major factors for determining federal funding levels of Head Start grants is the expected number of children to be enrolled in the grantee's program. Applying a cost per slot methodology, we determined that these missed opportunities had an associated value of about \$6.5 million. Most of the missed enrollment opportunities (short-falls) were in CRT's Hartford and Middletown operations. Our review also disclosed that CRT's record keeping and maintenance of program records was inadequate.

We believe contributing factors to the enrollment problems were that CRT's recruiting efforts were not sufficient to achieve funded enrollment levels and that CRT did not develop and maintain waiting lists of eligible children for all classrooms to assure that program vacancies were filled as they occurred. Additionally, we believe that other factors contributing to the short-falls were competing day care and educational programs and increased demand for full day care brought on by work requirements for families participating in the Temporary Assistance to Needy Families Program.

Although CRT made a credible effort to improve enrollment at the end of 2001, we believe that additional corrective action is still warranted.

## **RECOMMENDATION**

We recommend that CRT:

- Refund the value associated with the 924 enrollment short-falls for grant years 1999, 2000, and 2001. We believe that the ACF Regional Office is in the best position to determine the exact amount of the appropriate adjustment.
- Ensure its funded enrollment levels are being met by maintaining and improving recruiting efforts employed at the end of 2001. If CRT believes that it cannot fill half-day slots, the time to negotiate the program design is in the preparation of its proposal for the next year.
- Develop waiting lists at each operating classroom site to ensure vacancies are filled timely.
- Improve its program record keeping and maintenance of program records.
- Comply with special conditions imposed in Head Start grant awards.

In their response to the draft report dated July 15, 2002, CRT officials disagreed with our findings and conclusions. The response states that CRT has now addressed the enrollment issues. The response also disputes our method used to calculate the amount of recommended disallowance. The CRT officials believe that our estimate of the number of under enrolled participants was overstated and the methodology did not include an analysis of the reasonableness of the costs of providing services to Head Start participants.

With regard to our estimate of the number of under enrolled participants, we believe that our calculations of enrollment short-falls are accurate and conservative. For example, we credited CRT with a full month's enrollment if a child attended classes on at least one day in a given month. Based on the short-falls, we believe that a financial adjustment is warranted. However, based on Departmental Appeals Board precedent, we are not recommending a disallowance based on a cost per slot calculation, but recommend that ACF determine the exact amount of the appropriate adjustment. The CRT response did not directly respond to how it planned to ensure that it would meet its funded enrollment levels, how it will develop waiting lists for each classroom site, or how it will improve its record keeping and maintenance of program records.

# TABLE OF CONTENTS

	<b>Page</b>
<b>INTRODUCTION</b>	<b>1</b>
<b>BACKGROUND</b>	<b>1</b>
<b>OBJECTIVES, SCOPE AND METHODOLOGY</b>	<b>2</b>
<b>FINDINGS AND RECOMMENDATIONS</b>	<b>3</b>
<b>Enrollment Levels</b>	<b>3</b>
<b>Record Keeping and Maintenance of Records</b>	<b>5</b>
<b>Conclusion</b>	<b>6</b>
<b>RECOMMENDATIONS</b>	<b>7</b>
<b>CRT RESPONSE AND OIG COMMENTS</b>	<b>7</b>
<b>APPENDICES</b>	
<b>APPENDIX A – HEAD START ENROLLMENT LEVELS AND SUMMARY OF THE COST OF ENROLLMENT SHORT-FALLS</b>	
<b>APPENDIX B – COMMUNITY RENEWAL TEAM, INC. RESPONSE TO DRAFT REPORT</b>	

## INTRODUCTION

### BACKGROUND

The Head Start program is a discretionary grant program administered by the Administration for Children and Families (ACF). The objectives of the Head Start program are: (1) to promote school readiness by enhancing the social and cognitive development of low-income children through the provision of comprehensive health, educational, nutritional, social and other services; and (2) to involve parents in their children's learning and to help parents make progress toward their educational, literacy and employment goals. Head Start grantees are required to provide 20 percent of the total cost of the program through a matching share in cash or in fairly evaluated in-kind contributions.

The Community Renewal Team, Inc. (CRT) is an anti-poverty agency serving people and families throughout the Connecticut River Valley. In 1999, the Community Renewal Team of Greater Hartford, Inc. (Hartford) merged with Community Action for Greater Middlesex County (Middletown) to form CRT. The CRT and its delegate agencies in Manchester, East Hartford, Enfield, and Bristol received about \$28.9 million in Head Start funding during the period January 1, 1999 through December 31, 2001. A significant portion of CRT's matching share is provided by enrollments in programs that are related to the Head Start program and supported by the State of Connecticut.

One of the major factors for determining federal funding levels of Head Start grants is the expected number of children to be enrolled in the grantee's program. By grant period, CRT's Head Start awards provided for the following funding and enrollment levels:

GRANT YEAR	FEDERAL AWARD <sup>1</sup>	TOTAL ENROLLMENT	FEDERAL FUNDED	STATE FUNDED
1999	\$8,877,807	1,616	1,383	233
2000	\$9,760,165	1,616	1,383	233
2001	<u>\$10,265,005</u>	1,669	1,436	233
3-year Total	<u>\$28,902,977</u>			

The ACF program reviews and monitoring determined that CRT was not meeting its funded enrollment levels. As a result, in the 2000 grant year, ACF restricted CRT's federal grant by limiting \$500,000 of federal cash withdrawals until CRT met established enrollment levels. However, CRT did not meet the established levels and expended the funds without authorization. The ACF imposed further restrictions on CRT by providing the 2001 grant award in increments, holding back about \$1.3 million of the grant award until CRT could demonstrate improved enrollment. The CRT finally showed improved enrollment beginning in September 2001 and ACF eventually awarded \$450,000 of the grant funds it had held back for 2001. Because of CRT's continued under enrollment of the program, the ACF Regional Office requested an Office

<sup>1</sup> Federal Head Start awards are net awards after adjustments by ACF.

of the Inspector General (OIG) Office of Audit Services audit of CRT's enrollment for grant years 1999 through 2001 to determine the extent of under enrollment at CRT.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

Our review was made in accordance with generally accepted government auditing standards. The objectives of the review were to evaluate CRT's Head Start enrollment levels and the effect on federal funding. We limited our review to CRT's actual enrollment levels for the ACF funded Head Start program for the 3-year period ending December 31, 2001.

To accomplish our objectives, we reviewed and analyzed:

- Head Start regulations to gain an understanding of the controls used to meet the performance and fiscal measures of the grant;
- Financial and program reports issued to the grantee by ACF;
- Departmental Appeals Board (DAB) decisions related to enrollment and attendance, compliance with Quality Improvement Plans and the appropriate method used to compute per-capita cost per slot;
- CRT's compliance with the additional or special grant requirements imposed by the Region I ACF officials;
- Trustee, Executive and Finance Committee Board meeting minutes;
- Working papers of the independent public accountant who performed the Office of Management and Budget Circular A-133 single audits for the period under review;
- Grant applications, Program Information Reports (PIR) and other documentation, such as, school year calendars, classroom attendance rosters and classroom configuration sheets; and
- Financial Assistance Award amounts and the Cash Draw Down Schedule.

We tested the enrollment status of 21 judgmentally selected students enrolled in Head Start for the 2001 school year to determine if the students were Head Start students and not participants in other programs administered by CRT. We did not audit enrollments in CRT's state programs or for the limited full year Head Start program run during the months of July and August. To determine actual enrollment, we used classroom attendance reports and the PIRs.

We did not analyze expenditure reports to identify how federal funds were expended. The CRT was not required to file its Financial Status Report for the year ended December 31, 2001 until March 31, 2002. We limited our review of expenditures to discussions with CRT and its auditors.

We conducted our on site review at the offices of the CRT in Hartford, Connecticut from November 2001 through January 2002. On July 15, 2002, CRT responded to our draft report (see APPENDIX B).

## **FINDINGS AND RECOMMENDATIONS**

Our review of CRT's Head Start enrollment over the 3-year period from January 1, 1999 through December 31, 2001, disclosed that CRT had a total of 924 missed enrollment opportunities (short-falls), representing 22 percent of federally funded enrollment slots. One of the major factors for determining federal funding levels of Head Start grants is the expected number of children to be enrolled in the grantee's program. Applying a cost per slot methodology, we determined that these missed opportunities had an associated cost of about \$6.5 million. Most of the short-falls (834), with an associated value of about \$5.9 million, were in CRT's Hartford and Middletown operations.

The CRT's actual enrollment showed improvement by the end of 2001 but still fell substantially short of its funded levels. Prior to the 2001 improvements, CRT expended all or most of the federal funding although the funding was intended to support substantially higher enrollment levels. We believe contributing factors to the enrollment problems were that CRT's recruiting efforts were not sufficient to achieve funded enrollment levels and that CRT did not develop and maintain waiting lists of eligible children for all classrooms to assure that program vacancies were filled as they occurred. Additionally, we believe that other factors contributing to the short-falls, included competing day care and educational programs and increased demand for full day care slots.

In addition to the enrollment short-falls, CRT's record keeping and maintenance of records was inadequate. We found that CRT either did not properly prepare supporting records or did not maintain the records used to prepare performance reports, leading to a lack of documentation needed for oversight by ACF, independent auditors and the OIG.

We believe that the increase in enrollment levels that we noted at the end of 2001 was related to a new CRT Head Start management team that took effective action to cut the size of the short-falls in half by December 2001 by recruiting more aggressively and opening additional classrooms. Although CRT made a credible effort to improve enrollment, we believe that it might have averted the special conditions imposed by ACF and ACF's subsequent request for an audit if it had implemented similar actions during earlier periods.

### **Enrollment Levels**

To determine CRT's Head Start enrollment levels for the period under review, we recognized certain factors that had a direct impact on the enrollment figures. As a result, we applied the following standards in our calculations:

- A child attending classes on at least one day in a given month was credited as being enrolled for the entire month;

- Our calculations intentionally repeated the May 2001 enrollment levels (584) for CRT’s Hartford program in place of the June 2001 enrollment (actual 169) because CRT closed some classes early for the summer, which had the effect of increasing the enrollment for 2001 by about 42 children above CRT’s actual enrollment levels; and
- We excluded the months of July and August from our calculations because the summer Head Start program is much smaller than what is run during the regular school year.

Based on these assumptions, our review of CRT’s Head Start enrollment over the 3-year period from January 1, 1999 through December 31, 2001, disclosed that CRT had a total of 924 missed enrollment opportunities (short-falls), which represented 22 percent of the enrollment slots funded by the federal grants.

The following shows the results of our calculations and the extent of under enrollment for all locations and for Hartford and Middletown only:

**Figure 1 – CRT’S ENROLLMENT (INCLUDING DELEGATE AGENCIES)**

<b>Calendar Year</b>	<b>Funded Enrollment</b>	<b>Actual Enrollment</b>	<b>Short-Fall</b>	<b>Short-Fall Per Cent</b>	<b>Cost of Short-Falls</b>
1999	1,383	1,104	279	20.2	\$1,880,171
2000	1,383	1,043	340	24.6	\$2,469,557
2001	1,432	1,127	305	21.3	\$2,105,786
			924	22.0	\$6,455,514

The average cost per child, used to determine the “Cost of Short-Falls”, was calculated by dividing the net result of subtracting one time renovation funds from the total grant award for each location by the number of slots funded.

Much of the short-fall was in the Hartford and Middletown operations, which had an average short-fall of 28 percent for the 3-year period, as illustrated below:

**Figure 2 – CRT’S ENROLLMENT (HARTFORD/MIDDLETOWN ONLY)**

<b>Calendar Year</b>	<b>Funded Enrollment</b>	<b>Actual Enrollment</b>	<b>Short-Fall</b>	<b>Short-Fall Per Cent</b>	<b>Cost of Short-Falls</b>
1999	995	726	269	27.1	\$1,822,690
2000	995	681	314	31.6	\$2,302,750
2001	995	744	251	25.2	\$1,809,497
			834	28.0	\$5,934,937

It should be noted that the Hartford and Middletown enrollments did improve significantly in the 2001 to 2002 school year. Out of 995 slots, short-falls declined from 343 in June 2001 to 273 in

September 2001 to 95 in December 2001. See the APPENDIX A for a chart showing enrollment by month.

Federal regulations require Head Start grantees to maintain funded enrollment levels, allowing vacancies to last for short periods only. According to 45 Code of Federal Regulations (CFR) 1305.7 (b):

***A Head Start grantee must maintain its funded enrollment level. When a program determines that a vacancy exists, no more than 30 calendar days may elapse before the vacancy is filled. A program may elect not to fill a vacancy when 60 calendar days or less remain in the program's enrollment year.***

One process used to avoid such long term short-falls is to develop and maintain waiting lists. In this regard, 45 CFR 1305.6 (d) states:

***Each Head Start program must develop at the beginning of each enrollment year and maintain during the year a waiting list that ranks children according to the program's selection criteria to assure that eligible children enter the program as vacancies occur.***

Despite these requirements, we found that CRT did not develop and maintain waiting lists of eligible children for all classrooms to assure that program vacancies were filled as they occurred. In addition, we believe that other factors contributing to the short-falls were: (1) competing day care and educational programs and (2) increased demand for full day care brought on by work requirements for families participating in the Temporary Assistance to Needy Families Program. However, CRT indicated its new management team directed a substantial recruiting effort for the 2001 school year, which appears to have reduced the gap between federally funded slots and actual enrollments. Despite these efforts, the short-falls for CRT, including delegates, were still at 164 at the end of 2001, which is still more than 11 percent of the funded levels of 1,436, when Head Start regulations require that openings should be filled within 30 days.

The CRT officials advised us in April 2002 that most of the more recent short-falls in the Hartford and Middletown operations were in hard-to-fill half-day sessions. As of April 2002, CRT advised us it had enrolled eligible children in 873 of its 995 slot allocation. Of the remaining 122 openings, 111 were in the difficult to fill half-day category.

## **Record Keeping and Maintenance of Records**

In addition to the short-falls in enrollment, we found that CRT's record keeping and maintenance of records was inadequate. We found that CRT either did not properly prepare supporting records or did not maintain the records used to prepare performance reports, leading to a lack of documentation needed for oversight by ACF, independent auditors, and the OIG. Examples of records, which were missing, included student attendance records, school year calendars for classrooms, and supporting documents for reports related to enrollment. The CRT also encountered significant delays in providing us with requested documents during our review.

For example:

- The CRT initially could not provide its independent auditors with records related to 5 months of enrollment. The independent auditors took timely and expensive alternative steps to determine the levels of enrollment, using attendance, medical and nutrition records, only to find out later that the original records were located elsewhere. During our review, on several occasions we were told enrollment and attendance records did not exist or could not be located, only to receive them 2 to 4 months after we had requested them when CRT staff found they had been misplaced or stored improperly.
- The CRT reports enrollment information to ACF in an annual PIR. The CRT prepares this report from information collected in monthly reports. However, once the annual reports were submitted, CRT did not maintain the monthly reports or the documents used to prepare the PIR.

Federal regulations and guidance require grantees to document support for items reported in financial and program reports and to maintain these records. According to 45 CFR 1304.51(h):

***Grantee and delegate agencies must establish and maintain efficient and effective reporting systems that (1) Generate periodic reports of financial status and program operations in order to control program quality, maintain program accountability, and advise governing bodies, policy groups, and staff of program progress; and (2) Generate official reports for federal, state and local authorities, as required by applicable law.***

In addition, 45 CFR 74.53(b) states that:

***Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of 3 years.***

The CRT has bought a new computer based system, called CAPS (full name - CAPS/ECE System), which should enhance its control over enrollment, attendance, medical records, nutrition records, employee records and other systems. Specifically, CAPS is a centralized database accessible to anyone with access to the system regardless of where they are located if they have proper security clearance. Initially, CAPS was supposed to be fully operational early in 2001, but CRT was aiming for the new school year starting September 2002. Proper operation of a computerized system should go a long way in helping CRT gain control of its records situation.

## **Conclusion**

Based on our review, we believe that CRT did not react to ACF's legitimate oversight concerns in the past, particularly related to the enrollment situations in Hartford and Middletown and the efforts needed to reduce the enrollment short-falls and the related cost per child for Head Start. However, CRT has put a new management team in place that has significantly enhanced its enrollment status in Hartford and Middletown. The new management team has also expended a great deal of effort installing its new CAPS record keeping system and training staff in its use.

## RECOMMENDATIONS

We recommend that CRT:

- Refund the value associated with the 924 enrollment short-falls for grant years 1999, 2000, and 2001. We believe that the ACF Regional Office is in the best position to determine the exact amount of the appropriate adjustment.
- Ensure its funded enrollment levels are being met by maintaining and improving recruiting efforts employed at the end of 2001. If CRT believes that it cannot fill half-day slots, the time to negotiate the program design is in the preparation of its proposal for the next year.
- Develop waiting lists at each operating classroom site to ensure vacancies are filled timely.
- Improve its program record keeping and maintenance of program records.
- Comply with special conditions imposed in Head Start grant awards.

## CRT RESPONSE AND OIG COMMENTS

The CRT provided a written response to our draft report on July 15, 2002 (see APPENDIX B). The response included a narrative section as well as 15 exhibits. Although we believe the exhibits provide a great deal of information related to CRT's Head Start operation, the information generally discusses matters related to the quality of the program, which do not fall within the scope of this report. Accordingly, we are attaching the narrative response and will make the exhibits available upon written request. We provided the ACF Regional Office with copies of the entire response, including exhibits.

The CRT officials disagreed with our findings and conclusions. The response indicated "...CRT had been actively involved in addressing these enrollment issues during the period in question, and further, that CRT had implemented changes to address these issues...." The response also disputes our method used to calculate the amount of recommended disallowance. In this regard, CRT officials believe that we over estimated the number of under enrolled participants and our methodology did not include an analysis of the reasonableness of the costs of providing services to Head Start participants. In addition, CRT also notes that our report failed to consider the quality of services provided based upon reasonable expenditures.

The enrollment short-fall issue has been a continuing problem at CRT. As noted in our report, ACF imposed special conditions on the Head Start awards to CRT in 2000 and in 2001. These included limitations on withdrawing federal funds, directives to close or combine classes, and issuance of grant awards in increments, all directed at attempting to get CRT to try to increase the number of children enrolled in Head Start. Specifically, in ACF's grant award letter for 2000, dated February 27, 2000, CRT was instructed to combine those classrooms with less than

17 students so as to generate cost savings by not incurring costs for under enrolled classrooms. We noted that from February 2000 through December 2000 between 45 percent and 67 percent of the 45 Hartford classrooms had less than 17 students enrolled. In fact, 14 classrooms had 10 or less students enrolled during this period. We believe that this indicates that CRT was not timely in responding to the ACF directive and consequently, continued to incur costs for under enrolled classrooms. Since its 2000 special condition did not achieve the desired effect of increasing enrollment at CRT, ACF provided the 2001 grant award in increments and withheld about \$1.3 million of the grant award until enrollment increased. As noted in our report, CRT enrollment levels finally showed improvement at the end of grant year 2001. We believe that ACF's actions were warranted based on CRT's slow response in increasing enrollment levels.

Further, CRT's response to our draft report notes that its grant proposals included higher enrollment levels than it expected to achieve, since it continued to propose a program design which included substantial numbers of half-day enrollment slots that CRT expected it would be unable to fill. The ACF was not open to reducing funded enrollment because, contrary to CRT's stated opinion, ACF believes that a properly managed recruitment process would result in substantially higher levels of enrollment. The CRT's subsequent significant improvement in enrollment validated this position.

The CRT response also claims that our enrollment short-fall was overstated. In this regard, CRT's accounting firm showed higher levels of enrollment than our review did. The accounting firm provided us with documents showing enrollment totals by classroom and by month. However, neither the accounting firm nor CRT provided us with the names and dates of any students they alleged that we had missed. In this regard, we provided the accounting firm access to our working papers on two separate occasions to review our enrollment calculations. They still did not provide us with any additional enrollees that we may have missed. Our review of the accounting firms documents in comparison with attendance sheets provided by CRT, lead us to conclude that we could not depend on their accuracy.

We believe that our calculations of enrollment short-falls are accurate and conservative. As noted in our report, we applied standards, which gave CRT's enrollment the benefit of the doubt in certain situations. As noted in our report, we credited CRT with a full month's enrollment if a child attended classes on at least one day in a given month, we adjusted the June 2001 enrollment to account for some classes that were closed early for the summer and, we excluded the months of July and August because classes are much smaller than those run during the regular school year. As a result, we believe our enrollment calculations provide consideration for factors that could affect enrollment.

With respect to our calculation of the amount of over payment related to the enrollment short-fall, CRT believes that this is an unacceptable method on which a disallowance should be based. The response cited DAB and ACF Information Memorandums, which indicated that, while material changes in program scope could be used to terminate the grantee from the program, cost per slot was not an appropriate method to calculate the disallowance related to failure to meet enrollment objectives. The DAB further concludes that the expenditures could be examined in more detail to determine more exactly and reasonably the disallowance related to the under enrollment.

As noted in our audit scope, our review was geared to determining the extent of under enrollment and the effect it had on federal funding. Our scope did not include a review of the reasonableness of costs expended. Based on the extent of the short-falls, we believe that a financial adjustment is warranted. However, we acknowledge that, because of the extensive monitoring experiences it has with CRT and other Head Start grantees, the ACF Regional Office would be in the best position to determine the exact amount of the appropriate adjustment.

The CRT did not directly respond to how it planned to ensure that it will meet its funded enrollment levels, how it will develop waiting lists for each classroom site, or how it will improve its record keeping and maintenance of program records. These significant matters should also be addressed in communications with ACF.

## **APPENDICES**

**COMMUNITY RENEWAL TEAM  
ENROLLMENT LEVELS**

**Total Head Start Enrollment for the Period January 1, 1999 through December 31, 2001**

Month	1999			2000			2001		
	Federally Funded	Actual Enrollment	Short-Fall	Federally Funded	Actual Enrollment	Short-Fall	Federally Funded	Actual Enrollment	Short-Fall
Jan	1,383	1,182	201	1,383	1,080	303	1,430	1,075	355
Feb	1,383	1,196	187	1,383	1,096	287	1,430	1,079	351
Mar	1,383	1,218	165	1,383	1,110	273	1,430	1,097	333
Apr	1,383	1,192	191	1,383	1,103	280	1,430	1,097	333
May	1,383	1,162	221	1,383	1,099	284	1,430	1,067	363
Jun	1,383	1,091	292	1,383	927	456	1,430	1,042	388
Sep	1,383	971	412	1,383	964	419	1,436	1,100	336
Oct	1,383	1,032	351	1,383	973	410	1,436	1,206	230
Nov	1,383	938	445	1,383	1,006	377	1,436	1,237	199
Dec	1,383	1,054	329	1,383	1,071	312	1,436	1,272	164
<b>Total</b>	<b>13,830</b>	<b>11,036</b>	<b>2,794</b>	<b>13,830</b>	<b>10,429</b>	<b>3,401</b>	<b>14,324</b>	<b>11,272</b>	<b>3,052</b>
<b>Avg</b>	<b>1,383</b>	<b>1,104</b>	<b>279</b>	<b>1,383</b>	<b>1,043</b>	<b>340</b>	<b>1,432</b>	<b>1,127</b>	<b>305</b>
<b>%</b>	<b>100%</b>	<b>80%</b>	<b>20%</b>	<b>100%</b>	<b>75%</b>	<b>25%</b>	<b>100%</b>	<b>79%</b>	<b>21%</b>

**Hartford/Middletown Head Start Enrollment for the Period January 1, 1999 through December 31, 2001**

Month	1999			2000			2001		
	Federally Funded	Actual Enrollment	Short-Fall	Federally Funded	Actual Enrollment	Short-Fall	Federally Funded	Actual Enrollment	Short-Fall
Jan	995	816	179	995	694	301	995	692	303
Feb	995	826	169	995	710	285	995	698	297
Mar	995	838	157	995	725	270	995	700	295
Apr	995	813	182	995	718	277	995	698	297
May	995	785	210	995	721	274	995	686	309
Jun	995	715	280	995	653	342	995	652	343
Sep	995	593	402	995	588	407	995	722	273
Oct	995	650	345	995	636	359	995	828	167
Nov	995	552	443	995	673	322	995	863	132
Dec	995	670	325	995	691	304	995	900	95
<b>Total</b>	<b>9,950</b>	<b>7,258</b>	<b>2,692</b>	<b>9,950</b>	<b>6,809</b>	<b>3,141</b>	<b>9,950</b>	<b>7,439</b>	<b>2,511</b>
<b>Avg</b>	<b>995</b>	<b>726</b>	<b>269</b>	<b>995</b>	<b>681</b>	<b>314</b>	<b>995</b>	<b>744</b>	<b>251</b>
<b>%</b>	<b>100%</b>	<b>73%</b>	<b>27%</b>	<b>100%</b>	<b>68%</b>	<b>32%</b>	<b>100%</b>	<b>75%</b>	<b>25%</b>

**COMMUNITY RENEWAL TEAM  
ENROLLMENT LEVELS**

**Hartford Head Start Enrollment for the Period January 1, 1999 through December 31, 2001**

Month	1999			2000			2001		
	Federally Funded	Actual Enrollment	Short-Fall	Federally Funded	Actual Enrollment	Short-Fall	Federally Funded	Actual Enrollment	Short-Fall
Jan	825	712	113	825	597	228	825	588	237
Feb	825	718	107	825	611	214	825	594	231
Mar	825	709	116	825	616	209	825	595	230
Apr	825	703	122	825	611	214	825	597	228
May	825	679	146	825	608	217	825	584	241
Jun	825	617	208	825	535	290	825	584	241
Sep	825	504	321	825	496	329	825	591	234
Oct	825	559	266	825	537	288	825	668	157
Nov	825	460	365	825	569	256	825	696	129
Dec	825	577	248	825	593	232	825	724	101
<b>Total</b>	<b>8,250</b>	<b>6,238</b>	<b>2,012</b>	<b>8,250</b>	<b>5,773</b>	<b>2,477</b>	<b>8,250</b>	<b>6,221</b>	<b>2,029</b>
<b>Avg</b>	<b>825</b>	<b>624</b>	<b>201</b>	<b>825</b>	<b>577</b>	<b>248</b>	<b>825</b>	<b>622</b>	<b>203</b>
<b>%</b>	<b>100%</b>	<b>76%</b>	<b>24%</b>	<b>100%</b>	<b>70%</b>	<b>30%</b>	<b>100%</b>	<b>75%</b>	<b>25%</b>

**Middletown Head Start Enrollment for the Period January 1, 1999 through December 31, 2001**

Month	1999			2000			2001		
	Federally Funded	Actual Enrollment	Short-Fall	Federally Funded	Actual Enrollment	Short-Fall	Federally Funded	Actual Enrollment	Short-Fall
Jan	170	104	66	170	97	73	170	104	66
Feb	170	108	62	170	99	71	170	104	66
Mar	170	129	41	170	109	61	170	105	65
Apr	170	110	60	170	107	63	170	101	69
May	170	106	64	170	113	57	170	102	68
Jun	170	98	72	170	118	52	170	68	102
Sep	170	89	81	170	92	78	170	131	39
Oct	170	91	79	170	99	71	170	160	10
Nov	170	92	78	170	104	66	170	167	3
Dec	170	93	77	170	98	72	170	176	-6
<b>Total</b>	<b>1,700</b>	<b>1,020</b>	<b>680</b>	<b>1,700</b>	<b>1,036</b>	<b>664</b>	<b>1,700</b>	<b>1,218</b>	<b>482</b>
<b>Avg</b>	<b>170</b>	<b>102</b>	<b>68</b>	<b>170</b>	<b>104</b>	<b>66</b>	<b>170</b>	<b>122</b>	<b>48</b>
<b>%</b>	<b>100%</b>	<b>60%</b>	<b>40%</b>	<b>100%</b>	<b>62%</b>	<b>38%</b>	<b>100%</b>	<b>72%</b>	<b>28%</b>

**Delegate Head Start Enrollment for the Period January 1, 1999 through December 31, 2001**

Month	1999			2000			2001		
	Federally Funded	Actual Enrollment	Short-Fall	Federally Funded	Actual Enrollment	Short-Fall	Federally Funded	Actual Enrollment	Short-Fall
Jan	388	366	22	388	386	2	435	383	52
Feb	388	370	18	388	386	2	435	381	54
Mar	388	380	8	388	385	3	435	397	38
Apr	388	379	9	388	385	3	435	399	36
May	388	377	11	388	378	10	435	381	54
Jun	388	376	12	388	274	114	435	390	45
Sep	388	378	10	388	376	12	441	378	63
Oct	388	382	6	388	337	51	441	378	63
Nov	388	386	2	388	333	55	441	374	67
Dec	388	384	4	388	380	8	441	372	69
<b>Total</b>	<b>3,880</b>	<b>3,778</b>	<b>102</b>	<b>3,880</b>	<b>3,620</b>	<b>260</b>	<b>4,374</b>	<b>3,833</b>	<b>541</b>
<b>Avg</b>	<b>388</b>	<b>378</b>	<b>10</b>	<b>388</b>	<b>362</b>	<b>26</b>	<b>437</b>	<b>383</b>	<b>54</b>
<b>%</b>	<b>100%</b>	<b>97%</b>	<b>3%</b>	<b>100%</b>	<b>93%</b>	<b>7%</b>	<b>100%</b>	<b>88%</b>	<b>12%</b>

**SUMMARY OF THE COST OF ENROLLMENT SHORT-FALLS**

<b>1999</b>						
<b>Year</b>	<b>Sites</b>	<b>Funded</b>	<b>Actual</b>	<b>Short-Fall</b>	<b>Cost Per Slot</b>	<b>Total</b>
1999	Hartford/Middletown	995	726	269	\$6,771	\$1,822,690
1999	Delegates	388	378	10	\$5,635	\$57,481
1999	<b>Total</b>	<b>1,383</b>	<b>1,104</b>	<b>279</b>	<b>\$6,729</b>	<b>\$1,880,171</b>

<b>2000</b>						
<b>Year</b>	<b>Sites</b>	<b>Funded</b>	<b>Actual</b>	<b>Short-Fall</b>	<b>Cost Per Slot</b>	<b>Total</b>
2000	Hartford/Middletown	995	681	314	\$7,331	\$2,302,750
2000	Delegates	388	362	26	\$6,416	\$166,807
2000	<b>Total</b>	<b>1,383</b>	<b>1,043</b>	<b>340</b>	<b>\$7,261</b>	<b>\$2,469,557</b>

<b>2001</b>						
<b>Year</b>	<b>Sites</b>	<b>Funded</b>	<b>Actual</b>	<b>Short-Fall</b>	<b>Cost Per Slot</b>	<b>Total</b>
2001	Hartford/Middletown	995	744	251	\$7,206	\$1,809,497
2001	Delegates	437	383	54	\$5,477	\$296,289
2001	<b>Total</b>	<b>1,432</b>	<b>1,127</b>	<b>305</b>	<b>\$6,900</b>	<b>\$2,105,786</b>

<b>Total Grant</b>						
<b>Year</b>	<b>Sites</b>	<b>Funded</b>	<b>Actual</b>	<b>Short-Fall</b>	<b>Cost Per Slot</b>	<b>Total</b>
1999	All	1,383	1,104	279	\$6,729	\$1,880,171
2000	All	1,383	1,043	340	\$7,261	\$2,469,557
2001	All	1,432	1,127	305	\$6,900	\$2,105,786
<b>Combined enrollment shortfalls and costs</b>			<b>1,091</b>	<b>924</b>		<b>\$6,455,514</b>

<b>Hartford/Middletown</b>						
<b>Year</b>	<b>Sites</b>	<b>Funded</b>	<b>Actual</b>	<b>Short-Fall</b>	<b>Cost Per Slot</b>	<b>Total</b>
1999	Hartford/Middletown	995	726	269	\$6,771	\$1,822,690
2000	Hartford/Middletown	995	681	314	\$7,331	\$2,302,750
2001	Hartford/Middletown	995	744	251	\$7,206	\$1,809,497
<b>Combined enrollment shortfalls and costs</b>			<b>717</b>	<b>834</b>		<b>\$5,934,937</b>

<b>Delegates</b>						
<b>Year</b>	<b>Sites</b>	<b>Funded</b>	<b>Actual</b>	<b>Short-Fall</b>	<b>Cost Per Slot</b>	<b>Total</b>
1999	Delegates	388	378	10	\$5,635	\$57,481
2000	Delegates	388	362	26	\$6,416	\$166,807
2001	Delegates	437	383	54	\$5,477	\$296,289
<b>Combined enrollment shortfalls and costs</b>			<b>374</b>	<b>90</b>		<b>\$520,577</b>

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July 15, 2002

Michael J. Armstrong  
Regional Inspector General for Audit Services  
HHS - Office of Audit Services  
Region 1  
JFK Federal Building  
Boston, MA 02203

RE: CIN A-01-02-02500

Dear Mr. Armstrong,

This package is submitted in response to the Office of Audit Services' (OAS) letter to Community Renewal Team, Inc. (CRT) dated May 31, 2002 and the accompanying U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services draft report (Report) entitled, "Review of Enrollments Under the Head Start Program Administered by the Community Renewal Team, Inc. - January 1, 1999 Through December 31, 2001." Thank you for allowing CRT the opportunity to respond to OAS's Report. CRT's response, in addition to this letter, consists of the attached Executive Summary and Response to Audit Report, together with attached relevant exhibits.

CRT was most disappointed that the ACF Regional Officer had requested an audit of CRT's enrollment for grant years 1999 through 2001, in that ACF and CRT had been actively involved in addressing these enrollment issues during the period in question, and further, that CRT had implemented changes to address these issues. In fact at the end of 2001 the only enrollment issue remaining was the half-day sessions. Second, the OAG Report was questionable in many aspects. It utilized incorrect assumptions, flawed methodology, and failed to consider certain cost issues, specifically that CRT had already reduced its budget requests for 1999 and 2000 based upon expected enrollment issues. Third, the report failed to consider the quality of services provided based upon reasonable expenditures. During this period of time it was unquestioned that CRT was providing quality services at a reasonable cost to the program even though the program was under funded each year, as evidenced by CRT's annual audits. ACF is still with holding approximately \$831,200 of grant funds for the last program year. Further it failed to take into consideration the special demographic changes, competition from state programs, declining need for half-day sessions, and space and construction problems CRT experienced during this period. In conclusion, the Report's recommendation that CRT refund to the federal government \$6,455,514 for alleged unjustified enrollment shortfalls for the years 1999, 2000, and 2001 is totally baseless in fact and law, for it is premised on a per capita based calculation of the expenditures and not on those costs found reasonable and necessary to provide quality services for the children enrolled in the program.

Michael J. Armstrong  
Regional Inspector General for Audit Services  
HHS - Office of Audit Services - Region 1  
July 15, 2002  
Page 2

CRT has designed and implemented several programs during the past three years to address the under-enrollment issues. The fact that Middletown is at full enrollment and the Hartford Program, minus double sessions, has consistently run at 94 to 97% enrollment validates these changes.

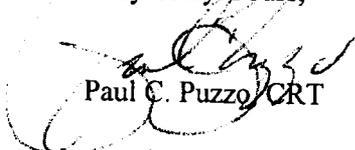
These programs have been successful and under-enrollment is no longer an issue except those related to half-day sessions. CRT has previously requested ACF to reallocate those half-day slots to full day slots, but ACF has not responded. Further, CRT has requested that ACF immediately fund the balance of the \$831,200 grant award from last year, but again ACF has not responded. Meanwhile CRT loaned the Head Start program this amount of money to operate.

In conclusion, CRT contends that the Report's findings and recommendations are unfounded in fact and law. CRT respectfully requests that OAS withdraw its recommendation that it repay the federal government \$6,455,514 and instead adopt CRT's recommendation as follows:

1. That ACF immediately fund the balance of the last years grant award in the amount of \$831,200.
2. That ACF immediately approve the conversion of the half-day slots to full day slots.
3. That if a budget adjustment is determined to be necessary in the future because of any issues, that it be adjusted prospectively and not retrospectively in consultation with CRT.

Again, thank you for the opportunity to respond. CRT trusts that OAS will give this response due and deliberate consideration and, after having reviewed the attached detailed response, will adopt CRT's recommendations.

Very Truly Yours,

  
Paul C. Puzzo/CRT

Attachments

## EXECUTIVE SUMMARY

The Office of Inspector General, Office of Audit Services (“OAS”) has provided Community Renewal Team, Inc. (“CRT”) with a draft report of its “Review of Enrollment Under the Head Start Program Administered by the Community Renewal Team, Inc. January 1, 1999 Through December 31, 2001.” This review was conducted at the request of the Administration for Children and Families (“ACF”). The report found that the CRT program had allegedly missed enrollment opportunities for the three grant years reviewed. Because of the number of purported missed opportunities, the OAS report recommended that CRT refund to the government approximately \$6.5 million for 1999, 2000, and 2001. CRT strongly disputes the findings of the report and believes that the ultimate recommendation of a refund is not correct because of significant flaws in the review process.

The conclusions reached by the OAS following its review of the Head Start Program administered by CRT are incorrect and the result of a flawed application of a flawed review methodology. The OAS improperly determined the amount of its recommended refund by applying a strict cost per enrollment opportunity formula that is inconsistent with Head Start policy and precedent. The OAS simply multiplied a cost per child by the number of allegedly missed enrollment opportunities without regard to the actual services provided and the costs to CRT to provide those services. However, this method of strict per capita cost reduction has been found improper by the Departmental Appeals Board.

The correct methodology requires a consideration of the reasonableness of expenditures in light of the services provided, the circumstances affecting the grantee’s ability to meet anticipated enrollment levels, and the grantee’s efforts at recruitment and enrollment. The OAS review considered none of these factors. The OAS also did not calculate the number of missed enrollment opportunities. First, the OAS did not even examine expenditure records, much less attempt to determine the reasonableness of program costs. The OAS report also did not make any adjustments for external factors that hampered CRT’s ability to meet enrollment goals. During the time in question, CRT confronted demographic changes that reduced the size of the eligible population within its service area, faced problems in retaining and acquiring classroom space, experienced an increased demand for full-day services because of work requirements associated with welfare reform, faced increased competition from other programs and child care providers, and attempted to integrate a program acquired through merger with another agency. None of these factors were considered in calculating the size of the recommended refund, although the report noted the difficulties resulting from welfare reform and increased competition. Finally, the OAS failed to recognize the role of the ACF in actively addressing known enrollment issues and CRT’s responsiveness to enrollment concerns raised by ACF.

The methodology used, though, was not the only flaw in the OAS report. Even if a per capita reduction were proper, the OAS did not apply this method correctly. The report contains several clerical errors that call into question the findings made. The OAS also did not calculate the number of missed enrollment opportunities properly. First, the OAS included in its calculations minor, normal fluctuations in delegate programs as purportedly missed enrollment opportunities, thereby inflating missed enrollment opportunities. Second, OAS seemingly did

not take into account that CRT operates a number of centers in different communities; OAS merely aggregated all of CRT's enrollment figures for its Hartford and Middletown operations with the result of inflating allegedly missed enrollment opportunities. The same was done with the delegate agencies, which, given their high overall levels of enrollment, should not have been included at all. Finally, the OAS did not calculate the size of the recommended refund correctly. The OAS did not make any adjustments based on mitigating or offsetting financial factors, such as CRT's non-reimbursed indirect costs and capital expenditures.

Given these significant flaws in the OAS review, the recommendation of the OAS that CRT refund a portion of its Head Start grant awards for Grant Years 1999 through 2001 is not warranted.

## RESPONSE OF CRT TO REPORT

The OAS report recommends the return of approximately \$6.5 million, based solely on allegedly “missed enrollment opportunities” or under enrollment. The report concluded that CRT’s Head Start programs had anticipated an enrollment for the calendar years 1999, 2000, and 2001 of 4198, but had achieved an actual enrollment of 3274, for a difference of 924. Characterizing this difference as the number of missed enrollment opportunities, the OAS simply multiplied the shortfall by a cost-per-child based on the originally anticipated enrollment and recommended that amount be returned.

CRT takes issue both with the number found to represent under enrollment as well as with their characterization as “missed” enrollment opportunities. Regardless, the recommendation of the report that we refund part of our 1999, 2000, and 2001 grant awards could be valid only if the sole criteria for funding were a cost per child enrolled and that both the program budget and the grant award were directly based on such a straight cost per child calculation. However, this is simply not the case.

Head Start program funding is based on a variety of factors. At first, the OAS report seems to recognize this fact and states on the first page of the Executive Summary that “One of the major factors for determining Federal funding levels of Head Start grants is the expected number of children to be enrolled in the program.” Report at 1 (emphasis added). Despite this acknowledgment, the OAS incorrectly treats expected enrollment as the sole factor in determining funding levels. Because CRT did not meet expected enrollment levels, the OAS report concluded that a refund should be made and based the size of that refund on a strict cost per anticipated child formula. Thus, despite the recognition that anticipated enrollment levels are only one factor to be considered, the OAS report incorrectly treats expected enrollment as the only factor.

This is a simplistic and unreasonable approach which fails to take into account the many factors other than expected enrollment levels that are relevant to Head Start funding. For instance, the OAS failed to consider the fixed costs associated with running a quality program or any special factors that may have affected CRT’s ability to meet anticipated enrollment levels. (While the report does state on page five that the OAS found that CRT could not meet expected enrollment levels because of increased demand for full day services and competing services, the OAS apparently made no adjustments to its recommendation based on those findings.) The OAS did not even examine any of CRT’s actual expenditures to determine their reasonableness as measured against the actual services provided. In light of the multiple flaws in the OAS report, we believe that the recommendation of a refund is not properly supported and should not be followed.

The errors in the OAS report are discussed in greater detail in second section of this response. In method, application, and conclusion, the OAS review of the CRT Head Start Program, as reflected in the report “Review of Enrollments Under the Head Start Program Administered by the Community Renewal Team, Inc. January 1, 1999 Through December 31, 2001” is wrong. However, before examining the results of the OAS review, the history of CRT and its Head Start program should be considered to place the review in context.

## I. OVERVIEW OF CRT AND HEAD START PROGRAM

The Community Renewal Team, Inc. is a private, non-profit agency providing a broad array of anti-poverty programs throughout Connecticut. Founded as a part of the nation's war on poverty, CRT is the largest community action agency in Connecticut and the oldest continuously operating agency in the country. Initially funded in 1963 by a \$75,000 grant from the Hartford Foundation for Public Giving, CRT now manages an annual budget of over \$50 million and employs over 700 people. It has remained true to its original mission of counteracting poverty and providing the poor and disadvantaged with the education and resources to achieve self-sufficiency. It also has spearheaded innovations in services and collaboration among area agencies.

### A. CRT OVERVIEW

CRT's programs are designed to provide comprehensive services to individuals and families with multiple problems through offering a seamless continuum of community services, consistent with its mission of "preparing our community to meet Life's Challenges." Annually, we now service over 60,000 persons and families. Services are provided through a number of different divisions and programs.

CRT's Criminal Justice Division operates three Adult Alternative Incarceration Centers, two Juvenile Justice Centers, two residential jail diversion programs - for court referred youth and for substance-abusing women with children, and a day program for first-time juvenile offenders, under contract with the State of Connecticut Judicial Branch, Court Support Services Division. Under contract with the Capital Region Workforce Development Board, CRT operates three One Stop Employment Centers providing case management and workforce development services to unemployed individuals. CRT's Meals on Wheels and Senior Community Cafes serve thousands of daily meals to the community's elderly, produced in CRT commercial kitchens and delivered in a fleet of specially designed trucks. Our Neighborhood Services department runs two homeless shelters, a twelve-unit low-income housing development, and supportive housing and life skills training programs for DCF-referred youth. Energy assistance, weatherization, home hazard abatement, eviction prevention, financial literacy, HIV/AIDS services, and educational programs round out services. See Exhibit 1.

The Head Start program is part of our Early Childhood Education Department. Currently, Early Childhood Education operates 20 sites and serves a total of over 1300 children in Head Start, School Readiness and SDE-funded classrooms. Seven of our 20 child-care centers are fully accredited by the National Association for the Education of Young Children (NAEYC), and another 10 have completed the required assessments and are pending an on-site visit. CRT's goal is to have all centers accredited by 2004. Accreditation by NAEYC indicates that a center meets or exceeds the rigorous standards established by this national body.

Because of our demonstrated record of success across many different programs, we are constantly approached by government organizations to incorporate additional programs and services into the continuum we provide. CRT welcomes the opportunities to add services needed

by its clients. CRT has long been a trusted partner of state, federal, and municipal governments in acting as a fiscal and programmatic agent for worthy but troubled programs, and in cases where a quick and efficient response is needed. We are also frequently approached by funding sources to help struggling programs. CRT has historically assumed management of such programs, ensuring that needed services were continued. Examples include the City of Hartford's Asylum Hill Elderly Program, a neighborhood-based enrichment program for seniors, and the Living Center, a drop-in facility for people with HIV and AIDS. CRT also acts as the fiscal agent for a number of community programs run by delegate agencies, including the Hartford IDA Collaborative, San Juan Tutorial Program, My Sister's House, the House of Bread and the Neighborhood Revitalization Corps. This willingness to incorporate struggling programs can also be seen in our Head Start program, which merged with that of The Community Action For Greater Middlesex County Agency three years ago.

## B. 1999 HEAD START PROGRAM MERGER

In 1999, CRT merged with and assumed responsibility for The Community Action For Greater Middlesex County Agency ("CAGMCA"), including its Head Start operations. The CAGMCA merger expanded CRT's Head Start service area well into Middlesex County and resulted in CRT providing childcare services for an additional 170 children. CRT encountered several problems immediately following the merger; the largest of these problems was a highly deficient child care delivery system. The program's infrastructure and facilities were in shambles. Paradoxically, during the process of the merger, ACF officials informed CRT that CAGMCA's child care program worked extremely well and that CRT should not make changes. However, a subsequent I-99 review showed that significant changes were necessary, and led to a re-organization of program operations. Thus for much of the last three program years, we have been engaged in the expensive process of rebuilding the former CAGMCA Head Start program.

Today, CRT's Head Start program is the largest of the 16 agencies delivering Head Start services in Connecticut. In fact, our program accounts for 23.2% of all Head Start children served in the state. CRT is larger than the combined total of half of all the agencies providing Head Start services in Connecticut. See Exhibit 2. Head Start services are provided through 17 centers that we operate in Hartford and 3 centers that we operate in Middlesex County as well as through four delegate agencies in other towns from Enfield to Bristol. Over 1300 children participate in the program. Given the size and geographic area covered by CRT's program, the ultimate conclusions of the OAS report could have a significant impact on Head Start services in the state of Connecticut. That the serious and invalidating flaws in the OAS report be recognized is, therefore, even more important.

## II. FLAWS IN OAS REPORT

The OAS report contains numerous flaws that invalidate its conclusions regarding the CRT Head Start program and the resulting recommendation that we refund part of the grant funds awarded for 1999, 2000, and 2001. These flaws fall into two major categories. The first flaws are methodological; the OAS used an improper straight cost per child formula. The OAS then made its initial mistake worse by using improper practices and procedures in applying the per capita reduction method. These errors are discussed in order.

## A. IMPROPER METHODOLOGY

In concluding that CRT should refund part of the federal awards for the three previous grant years, OAS employed an improper methodology. The OAS used a straight per capita formula to determine a single cost per slot for CRT's Hartford and Middletown operations and a single cost per slot for the delegate agencies. However, such use of strict per capita cost allocations is not consistent with Head Start policy, the Head Start budgeting process, or precedent from the Departmental Appeals Board ("DAB"). Indeed, this straight per capita method has been expressly rejected by the DAB.<sup>1</sup>

Retroactively applying a cost per slot formula based upon short falls in anticipated program enrollment to require a return of previously granted funds is fundamentally inconsistent with the Head Start budgeting process. Head Start budgets are determined prospectively without regard to any particular number of children because the grantee cannot know exactly how many children will actually be served during a grant year. An estimate must be made, but the grantee cannot be faulted for failing to foresee circumstances over which it does not have complete control. Judgment must be applied to determine whether actual program expenditures were reasonable in light of the number of children served, the unique factors affecting that grantee during the grant year, and the grantee's efforts related to enrollment and community outreach.

The inappropriateness of using strict cost per child formulas in Head Start program funding was recently re-affirmed in ACF Information Memorandum ACYF-IM-HS-01-13. The memorandum concerned budgeting for partnerships between childcare and Head Start and noted that one of the perceived barriers to budgeting for such partnerships is the dramatic difference in cost per child between the two programs. However, the memorandum expressly rejected a cost per child approach to Head Start budgeting, stating that "Head Start budgets are not premised on 'cost per child.'" Information Memorandum ACYF-IM-HS-01-13 at 3. Head Start budgeting is, instead, based upon "the reasonable costs of providing needed quality services to children and families within the bounds of federal funds appropriated for the program." *Id.* This is entirely consistent with the approach endorsed by the DAB. Despite this precedent and the ACF's own policy statements, the OAS failed to consider the proper, relevant factors in its review.

### 1. REASONABLE COSTS OF SERVICES PROVIDED

The first factor to be considered is the reasonableness of the program costs in light of the services provided. The OAS, however, failed to examine the reasonableness of CRT's actual expenditures in providing services to children and families within its Head Start service areas. As pointed out earlier, the OAS report specifically states that the OAS "did not analyze expenditure reports to identify how Federal funds were expended," although it did speak with CRT's staff and auditors. Report at 2. This failure to examine the reasonableness of CRT's Head Start program expenditures in light of the actual costs associated with serving the children who participated in the program is a major failing that undermines the entire report.

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<sup>1</sup> See HOPES, Inc., DAB No. 1117 (1989).

We believe that the quality and range of the services provided by CRT's Head Start program fully support the actual expenditure levels for the years 1999 through 2001. CRT has always been and remains strongly committed to providing the highest level of program services. The quality of our program is, in part, reflected in the accreditation that our child care centers have received. As we have already mentioned, seven centers have already received NAEYC accreditation and ten additional centers are awaiting approval. This commitment to a quality is also demonstrated by our efforts at improving the Head Start program. We recognize that difficulties resulted from the 1999 merger with CAGMCA, but CRT took appropriate action to confront those transitional difficulties and make improvements. For example, in 2001, CRT obtained a grant from the Hartford Foundation For Public Giving to retain the services of Maurice Sykes and Edward Green, both nationally recognized Early Childhood and Management consultants. See Exhibit 3. Mr. Sykes and Mr. Green reviewed our program and made recommendations for improvement. The issues that they identified were addressed and resolved. The difficulties associated with the merger have been surmounted. The two most recent reviews of CRT's programs by ACF positively commented on the improvements made and found no deficiencies. See Exhibit 4. Quality of services provided, then, is not an issue.

Nor is reasonableness of expenditures. CRT's independent auditors, DiSanto, Bertoline & Company, P.C., have reviewed CRT's 1999, 2000, and 2001 grant year expenditures related to Head Start. Using the appropriate United States Office of Management and Budget cost principles, they have confirmed that CRT's Head Start expenditures for those years were reasonable, allowable costs. In fact, after analyzing CRT's federal funding in light of our actual indirect costs, capital expenditures, and the Head Start 20% local match requirement, they concluded that we are actually entitled to additional federal Head Start funding for 1999, 2000, and 2001. Our auditors concluded that CRT should receive an additional \$2,129,600.00 above what has already been provided for the previous three years. See Exhibit 5.

## 2. FACTORS AFFECTING CRT ENROLLMENT

In addition to the services provided, in evaluating reasonableness of program expenditures, the particular circumstances encountered by the grantee must also be considered. Several unexpected factors affected CRT's ability to fully achieve enrollment goals during the 1999, 2000, and 2001 grant years. As of 1999, CRT had been operating Head Start programs in central Connecticut for decades. Our enrollment projections were based on the number and location of sites and enrollment then existing. Major changes to the low-income population in Hartford occurred immediately prior to and during this time frame. Hartford suffered a significant decrease in population. This was accompanied by the loss of over one thousand units of public housing in Hartford and Middletown, which reduced housing opportunities for many Head Start eligible families and resulted in lost classroom space for CRT. Simultaneously, welfare reform introduced a need for increased full-time childcare, while the composition of available Head Start slots remained static, with an excessive number of "double session" (half-day) slots. CRT continues to await approval from ACF to convert these slots to full-time, having applied for permission in December 2001. See Exhibit 6. Also at this time, CRT undertook the merger with CAGMCA

### a. MERGER WITH CAGMCA

CRT's 1999 merger with CAGMCA and assumption of responsibility for its Head Start program had unforeseeable consequences. Before the merger was completed, ACF told CRT that the CAGMCA childcare program worked well, and CRT was advised by ACF not to make any changes. Soon after the merger with CAGMCA, problems began to surface. In May of 1999, ACF conducted an assessment of CRT's Head Start programming. As pointed out by the subsequent I-99 review, the Middletown program's infrastructure and facilities were seriously deficient. Deficiencies highlighted by the I-99 led to a reorganization of program operations and CRT's resources were immediately directed to remedying the overall program quality deficiencies identified by ACF in an effort to save the program, itself. CRT did not, as implied in the OAS report, fail to respond to concerns raised by ACF. Rather, in response to this review, CRT prepared a quality improvement plan ("QIP") and, as discussed above, hired Maurice Sykes. See Exhibit 7. The QIP led to a revised administrative structure and new management systems to support this larger program. Throughout this period of time, CRT maintained frequent and ongoing communication with ACF regarding the challenges created by the unforeseen and unavoidable circumstances within the program. We submitted proposals to ACF to address these challenges and substantively altered our enrollment practices without comment or offers of technical assistance from ACF. See Exhibit 8. Noteworthy is the fact that neither the May 1999 review nor a subsequent April 2001 review resulted in a negative finding regarding enrollment.

b. DEMOGRAPHIC CHANGES AND SPACE ISSUES

The merger occurred at the same time that CRT and the Hartford area were encountering demographic changes. Like many urban areas, Hartford has lost population in recent years. This loss of overall population has been accompanied by a reduction in public housing stock. In 1997, 309 units of public housing in Hartford were demolished and replaced with only 129 units. More units were lost in 1998. In Hartford 1000 units of public housing were closed and replaced by 130 units, and, in Middletown, 200 units of public housing were closed. The Middletown closing also resulted in the loss of two classrooms. These demographic changes reduced the number of Head Start eligible families and negatively affected CRT's ability to fulfill enrollment goals. In addition, the loss of classrooms in connection with the Middletown closing impacted enrollment.

Space problems apart from those associated with the public housing demolitions also hampered our efforts to meet enrollment goals. The 1999 grant year saw the unavoidable closure of a large number of classrooms. In June, CRT was required to relinquish classroom space located at Sand Street back to the board of education. In September 1999, the Huyshope Center was closed because of environmental concerns. The 114 enrolled children were scheduled to be moved to the new center opening on Locust Street. However, the new center was not open at the time Huyshope closed, creating a gap in enrollment for that interim period. The new Locust Street opened a month later, in October 1999, with an enrollment of 125 children. At that time, CRT was embarking on an expansion plan that involved five centers--Douglas Street, Enfield Street, Grace Street, John Street, and Locust Street. However, the expansion plan was not able to solve all of the space problems immediately. See Exhibit 9.

These problems with classroom space continued in 2000. In March our John Street Center, serving 36 children, was closed due to skunk infestation. Plans to relocate next door to a new four classroom site with a health center at 36 John Street were cancelled after the Hartford City Council denied the City Manager's request to sell CRT the property. In April, a classroom at Hampton Street was closed because of the property owner's plans to demolish the building. That same month, the center located at the Stowe Village public housing project was closed in conjunction with the demolition of the housing complex. In May, the Portland Board of Education took back classroom space for its own use, causing another displacement. Because of high rents and lack of available property, CRT was unable to immediately replace these slots. In June, the Warburton Center was also closed due to unreasonable rental increase demands by the landlord and concerns about the condition of property. In addition, the Locust Street Center experienced temporary closing of classrooms and additional difficulties meeting enrollment goals resulting from an electrical fire in the HVAC roof top units during this year.

CRT had solid plans to respond to these changes and, as earlier described, was engaged in a major expansion project at that time. With the purchase and renovation of the Douglas Street facility then complete, expansion plans included an additional ten classrooms on Locust Street, six classrooms on Grace Street, two classrooms in Newington, one classroom in Clinton, and six classrooms in Bloomfield. The 55 children displaced at Warburton were to be moved to the Grace Street location. Grace Street opened in November of 2000 and is now serving 56 children. However, the time period between the closing of Warburton in June and the opening of Grace Street in November caused gaps in enrollment. See Exhibit 10. The remaining slots rendered unavailable by these events were scheduled to be moved to Bloomfield. However, unforeseen problems outside the control of CRT delayed the Bloomfield opening significantly. This site opened eight months late as a result of its closure by the EPA due to illegal remediation and disposal of hazardous materials by the owner. In addition, code violations and tax delinquency by the owner delayed renovations. These delays created a significant enrollment gap but were beyond our control.

c. WELFARE REFORM AND COMPETITION

Also beyond our control were the effects of welfare reform and increased competition from other programs and care providers. Although the OAS report acknowledges that competition from other child care providers and programs as well as increased demand for full day child care services contributed to the number of vacancies in CRT's program, the OAS apparently did not take these external factors into account in its recommendation that CRT refund part of its prior grant awards. See Report at 5. However, the combination of welfare reform and greater competition has significantly affected our ability to meet enrollment goals.

One major obstacle to achieving enrollment goals during the time period covered by the OAS review was an unanticipated increase in competition from alternate childcare programs. In September of 1999, the Hartford Public Schools opened 44 full day, full year pre-school classrooms with a capacity for 792 children. This negatively impacted our Head Start enrollment in two ways. First, Head Start eligible families elected to enroll their children into their neighborhood school as rather than Head Start classrooms because parents viewed this new school system initiative as an opportunity to place their pre-school children in schools with their

older siblings. Second, the school system salary schedule was approximately \$ 10,000 higher than that of CRT. Head Start teachers and teaching assistants with the appropriate certifications were enticed away from CRT by this higher salary and resigned. As a result of these resignations, CRT was prevented from timely opening some centers.

An even greater obstacle to meeting anticipated enrollment levels was the introduction of work requirements as part of welfare reform. These requirements have increased the demand for full day childcare services, making it increasingly difficult for CRT to fill its half-day, double session spaces. As explained in detail in the next section, CRT has made substantial efforts to address the enrollment issues related to its half day, double session spaces. However, demand simply does not exist for these spaces. Of the "missed enrollment opportunities" identified by the OAS in CRT's Hartford and Middletown operations, more than one hundred a month are attributable to the half day spaces. Given the lack of demand in our community for these services, CRT should not be penalized for unfilled half-day slots. The difficulties CRT has experienced with filling the half-day spaces are exactly the type of unique circumstances that should be considered in determining whether a refund of previously awarded grant funds is warranted.

### 3. ENROLLMENT EFFORTS

The OAS report is also flawed in its consideration of CRT's enrollment efforts. The report suggests that CRT failed to respond in a timely manner to issues contributing to the alleged under enrollment. However, these conclusions are not supported by the evidence. Whenever ACF has brought enrollment-related concerns to CRT's attention, CRT has addressed the specific concerns raised and has worked quickly to resolve the identified issue.

Our enrollment and recruitment process has been revised as part of an administrative reorganization. During 2001, CRT assigned a new management team responsibility for Head Start. The agency created the position of Executive Director of Education and appointed a former school superintendent. See Exhibit 11. This individual was assigned primary responsibility for enrollment and compliance with Head Start Performance Standards. Additionally, a new Head Start Director was appointed in September. This individual served previously as Early Childhood Director for the Hartford Public Schools and as Director assumed responsibility for program planning, implementation, monitoring and assessment. See Exhibit 12. External consultants were also employed and the enrollment strategy was reassessed. Central to this new strategy are weekly meetings and enrollment reports, which provide ongoing enrollment information. In addition, a new Intake Unit opened in September 2000. Its primary responsibilities are recruitment, eligibility determination, and assignment of children across sites. This centralized intake process immediately eliminated impediments to increased enrollment.

Contrary to the suggestions of the OAS report, uneven citywide enrollment and not a lack of waiting lists hampered enrollment efforts. Because of the absence of a centralized enrollment process, some of the centers were fully enrolled and maintained waiting lists, while other centers were partially enrolled without waiting lists. The centralized intake process maintains a listing of all vacancies and is responsible for filling slots where vacancies exist. This process has resulted in a better quality of care for children with special needs by ensuring the even

distribution of these children across all sites. The centralized enrollment process also has eliminated the inefficient use of bus transportation through greater placement of children in sites within the walking distance of the family's home. Furthermore, the new intake procedures have improved the process of eligibility determination and resulted in more effective use of bilingual staff.

Another benefit of CRT's revised enrollment practices has been increased interaction with the Hartford Public Schools. CRT and the school system are now working together on grants, recruitment and program development; all to the benefit of Head Start children. The School Superintendent has publicly stated his desire to work more closely with CRT. See Exhibit 13. The Assistant Superintendent for elementary schools currently serves on CRT's Board of Directors. The school system's Director of Early Childhood and CRT's Executive Director of Education have embarked upon a number of initiatives including working jointly on an Early Head Start Grant Application, developing an early childhood student internship program, and collaborating on the Early Reading First Grant application. Additionally, the Superintendent of Schools has agreed to permit CRT to place two additional Head Start classes within the school system. This use of school system classroom space will permit CRT to transfer underused slots to heavily populated areas within the city, increasing enrollment.

CRT has also addressed enrollment concerns through opening new classrooms and exploring options to expand services. As mentioned above, starting in, we conducted an expansion plan involving five childcare centers. CRT has opened a total of 31 new classrooms since 1999. We have also explored ways to address our half-day slots, which have become increasingly difficult to fill as the work requirements of welfare reform have increased for full day, full year care. The double session problem has been discussed with ACF officials, including Hugh Galligan, and a formal request to convert some of our 180 half day, double session spaces to full day slots was submitted in December of 2001 but has not been acted upon by ACF. See Exhibit 6. In addition, CRT has successfully used state funds to expand the hours and weeks of operation; however, these resources have been used to their maximum. See Table 1.

Table 1.

PROGRAM	1/4/02			2/8/02			3/8/02			4/9/02			5/6/02	
	FUND	ENRL	OPEN	FUND	ENRL	OPEN	FUND	ENRL	OPEN	FUND	ENRL	OPEN	FUND	ENRL
HS/DBL	180	74	106	180	68	112	180	64	116	180	69	111	180	70
HS	657	648	9	657	649	8	657	649	8	657	646	11	657	633
HS/SDEW	90	88	2	90	89	1	90	89	1	90	90	0	90	90
HS/SRW	68	63	5	68	62	6	68	66	2	68	68	0	68	68
SR	238	224	14	238	229	9	238	236	2	238	236	2	236	236
SDE	36	32	4	36	34	2	36	35	1	36	35	1	36	36
DSS	211	174	37	211	175	36	211	174	37	211	178	33	211	179
<b>TOTAL</b>	<b>1,480</b>	<b>1,303</b>	<b>177</b>	<b>1,480</b>	<b>1,306</b>	<b>174</b>	<b>1,480</b>	<b>1,313</b>	<b>167</b>	<b>1480</b>	<b>1322</b>	<b>158</b>	<b>1480</b>	<b>1312</b>

**LEGEND**

- HS/DBL = HEAD START DOUBLE SESSIONS
- HS = FULL DAY HEAD START
- HS/SDEW = HEAD START/STATE DEPT OF EDUCATION WRAP
- HS/SRW = HEAD START/SCHOOL READINESS WRAP
- SR = SCHOOL READINESS
- SDE = STATE DEPT OF EDUCATION
- DSS = STATE DEPT OF SOCIAL SERVICES

Despite these increased recruitment efforts and the opening of new centers and classrooms, CRT still experiences great difficulty in filling half-day session spaces, which constitute the largest category of vacant enrollment opportunities. At the end of the 2002 program year, 110 of the 180 double session slots were not filled. These slots account for almost all of the remaining openings in CRT's program. See Table 2.

**Table 2.**

Full Time Slots	Part Time Slots	Total
238	68	306

**Chart A: CRT Enrollment Without Doubled Slots**

	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	April	May
Funded Enrollment	815	815	815	815	815	815	815	815	815
Actual Enrollment	667	739	790	776	733	800	804	804	791
Difference	148	76	25	39	82	15	11	11	24
% Enrollment	82%	91%	97%	95%	95%	98%	99%	99%	97%

**Chart B: CRT enrollment with Doubled Slots**

	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	April	May
Funded Enrollment	995	995	995	995	995	995	995	995	995
Actual Enrollment	536	760	816	857	807	868	868	873	861
Difference	459	235	179	138	188	127	127	122	134
% Enrollment	54%	76%	82%	86%	81%	87%	87%	89%	86%

Indeed, the OAS report notes that of 122 remaining openings, "111 were in the difficult to fill half day category." Report at 5. That CRT has been unable to fill these spaces even with increased, aggressive recruitment efforts substantiates the lack of demand for half-day sessions in CRT's program area. Yet, despite the admission in the OAS report that half-day spaces are difficult to fill, the OAS apparently made no allowances for the problems associated with the half-day spaces. However, given the lack of demand in its community for these services, CRT should not be penalized for unfilled half-day slots.

## B. IMPROPER APPLICATION

In addition to the methodological flaws already discussed, the OAS review contained significant flaws in the application of the incorrect straight per capita formula chosen by the OAS. CRT and its independent auditors have reviewed the OAS report as well as OAS's letter (CIN: A-01-02-02500) dated June 25, 2002 regarding OAS providing information related to the items included in its calculation of the cost per enrollment slots. We have also had the opportunity to interview the OAS staff assigned to the CRT engagement. Our review of the OAS report and June 25, 2002 letter, and our interview with the OAS staff revealed that OAS made material errors in its calculation of the number of CRT's allegedly missed enrollment

opportunities and in the size of the recommended refund of previously awarded grant funds. Indeed, as previously discussed, without these mistakes, CRT would actually be entitled to additional grant funds. The procedural flaws in the OAS audit fall into three broad categories: clerical errors related to the data used, errors related to calculating the number of vacancies, and errors related to calculating the refund amount.

#### 1. CLERICAL ERRORS

CRT and its outside auditors identified four clerical errors made by the OAS in regard to the data reported in its audit of the Head Start program. First, in reviewing the OAS letter dated June 25, 2002, we noted an error in calculating the "Adjusted Award" column for the 2001 Award Year. See Exhibit 14. Upon recalculation of the figures provided in this letter, we determined the total in the 2001 Adjusted Award column added up to \$9,859,930, not the \$10,265,005 figure that is indicated in the letter. This is a major error as these numbers played an important role in OAS's determination of costs per slot for 2001.

In addition, our review of the OAS report and the OAS letter dated June 25, 2002 found three further discrepancies. We found that the "Adjusted Award" of \$9,642,862 listed in the letter for the 2000 Award Year does not agree with the amount of \$9,760,165 listed as "Federal Award" for 2000 on page 1 of the OAS. The remaining two errors are also internal discrepancies in the OAS report. Page 3 of Appendix A, erroneously lists "Total Grant" section "Funded" enrollment for 2001 as 1,433, but the section above ("2001" section) lists this same amount as 1,432. Also on page 3 of Appendix A, the "Total Grant" section erroneously lists "Cost Per Slot" for in 2001 as \$7,653, but the section above ("2001") lists this same amount as \$6,900. These various errors call into question the overall accuracy of the report.

#### 2. NUMBER OF VACANCIES<sup>2</sup>

The second problem area in the OAS's method lies in its calculations regarding the number of "missed enrollment opportunities." The techniques and practices used by OAS in determining enrollment resulted in calculations that were severely flawed and unreasonable. Although we recognize that counting attendance in multiple classrooms and at multiple sites using manual records was an extremely cumbersome but necessary process for OAS, we believe that this technique lent itself to errors. Those errors could be compounded if one is not intimately knowledgeable and experienced with such a process and does not fully understand the differences between enrollment and attendance. We believe that this occurred with the OAS audit and, therefore, strongly disagree with the enrollment figures determined by OAS and maintain that CRT's enrollment figures are extremely conservatively stated. CRT's true funded

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<sup>2</sup> During 2000 and 2001, ACF grant records incorrectly showed more federally funded Head Start slots than actually existed in CRT's program. These slots represented 97 spaces that CRT undoubled in 1999; these spaces were converted to 97 state funded School Readiness spaces. Because the 97 undoubled slots were state funded, CRT did not include them in its Head Start enrollment reports to ACF, but ACF's records continued to list these 97 spaces as federally funded. The OAS enrollment figures appear properly to exclude these 97 spaces from the total number of federally funded slots in CRT's program.

enrollment, actual enrollment and enrollment vacancies by site and classroom are summarized in the attached Exhibit 15.

The OAS attempted to determine Head Start enrollment based upon selected attendance records, but attendance and enrollment are not synonymous under Head Start law. Simply because a child is not in attendance on a particular day does not mean that the space is not enrolled. Under the Head Start regulations at 45 C.F.R. § 1305.8(c), only when "chronic absenteeism persists and it does not seem feasible to include the child in either the same or a different program option, the child's slot must be considered an enrollment vacancy." Only then does the grantee have thirty days in which to fill the vacancies under 45 C.F.R. § 1305.7(b). Therefore, in testing enrollment data by reviewing attendance records, it is important that an entire month be counted and reviewed as certain children may be in attendance one day or week and not in attendance another day or week yet still be enrolled. However, the OAS report does not appear to recognize the inter-relationship between these two sections, as it does not make any allowance for the fact that a child not in attendance may still be enrolled and, therefore, the thirty day window to fill a vacancy may not yet have begun to run. Although the OAS report seemingly recognized to a limited degree the implication of the thirty day window under section 1305.7(b) by purporting to count any child in attendance on a given day of the month as an enrollment, it appears that the OAS, in performing "test counts" of certain months, focused on the last week or weeks and may have missed a significant number of children that were present and enrolled in classrooms on certain days or weeks.

In addition to the inherent flaw in equating attendance with enrollment, the OAS review also used improper procedures in its treatment of supporting data. As noted, the OAS relied on attendance and health records. CRT acknowledges that certain supporting records for a small portion of the classrooms tested by OAS were not available, but the approach taken by the OAS was not reasonable. Upon testing these classrooms, OAS reported a test count of zero. We believe that a reasonable approach would have calculated CRT's reported enrollment using other reasonable measures, such as extrapolation from enrollment levels for the preceding and succeeding months. For example, OAS cited and penalized CRT for 109 missed enrollment opportunities at its T.D. Ritter site during the month of November 1999 because attendance records could not be located. However, the T.D. Ritter site is one of our most successful sites and, generally, has strong enrollment. Attendance records were available for the T.D. Ritter site for October 1999 and December 1999. We believe that it would be more than a reasonable assumption that the children were, in fact, enrolled in November 1999 if October 1999 and December 1999 were tested rather than citing and penalizing CRT under a "zero tolerance" approach. Details of these variances are provided by month, by site and by classroom at Exhibit 15, and the differences between enrollment as reported by CRT and enrollment as reported by OAS are summarized in the following table.

**Table 3.**

Calendar Year	Funded Enrollment	Actual Enrollment as reported by CRT (Exhibit C)	Average Estimated Enrollment as reported by OAS (OAS Report, Appendix P. 1 of 3)	Variance
	A	B	C	B-C
1999	995	888	726	162
2000	995	743	681	62
2001	995	900	744	156

In determining “missed enrollment opportunities,” OAS also combined all of the Head Start programs funded through CRT, including its delegate programs, and averaged monthly enrollment levels across the delegate and CRT programs. These methods failed to reflect operational realities in the programs and had the effect of overstating missed enrollment opportunities by distorting normal fluctuations in enrollment.

In calculating the number of missed enrollment opportunities, the OAS does not appear to have made any allowances for normal fluctuations in enrollment levels. ACF has, on several occasions, informed CRT that because of normal fluctuations in enrollment a certain level of missed opportunities is inevitable and allowable. However, the OAS report does not indicate that it even considered these normal fluctuations, that ACF told CRT were acceptable, in determining the number of missed enrollment opportunities.

Even if the OAS had considered normal fluctuations in enrollment levels, the techniques used for calculating vacancies would have distorted the variations by focusing on the wrong operational level. Enrollment fluctuations should be viewed in the context of the grantee’s unique operating conditions. The OAS, though, gave no consideration to the impact of CRT’s operational structure in calculating the number of allegedly missed enrollment opportunities for the Head Start spaces that CRT provides directly. As mentioned, CRT operates multiple centers in several communities within the Hartford and Middlesex County areas. Each center will have its own natural fluctuations in enrollment, and open spaces in a particular center may be more difficult to fill because of geographic and logistical factors. For example, an opening in at CRT’s Clinton Center may not be filled, as a practical matter, by a child living in Enfield because of the approximately 70 mile distance between the center and the child’s home. However, instead of examining each center in relation to its service area, the OAS simply averaged all of the Hartford and Middletown operations together. Averaging enrollment figures distorts center-based fluctuations by including vacancies at centers without significant numbers of missed opportunities.

Under the Head Start definition of enrollment, using the highest monthly enrollment amount rather than averaging would attain the best representation of true annual enrollment. As shown in Table 3, this would result in annual enrollment levels of 900 (December 2001), 743 (March 2000) and 888 (March 1999) for the years ended December 31, 2001, 2000 and 1999, respectively. We prepare our monthly enrollment data based on our current monthly enrollment

and not on the cumulative annual basis. Because CRT does not report its enrollment on a cumulative basis, actual enrollment could actually be far in excess of 900 for the year ended December 31, 2001. For example, CRT's reported enrollment for January 2001 of 710 may include 50 children whom are no longer enrolled in December 2001 and whom would not have been included in CRT's reported enrollment of 900 for December 2001. In that example, we then would have provided services to at least 950 children during the year at a minimum. These factors are not appropriately addressed or considered in OAS's report. For these reasons, we believe that "averaging" is not an acceptable method of determining Head Start enrollment.

This incorrect use of across the board averaging extended to the OAS review of the operations of CRT's four delegate agencies. In calculating missed enrollment opportunities, OAS erred in considered the enrollment levels of these delegate agencies, which function as distinct programs and which have different enrollment levels than the programs directly operated by CRT. The combining of the enrollment figures for all four delegates is wrong for several reasons. First, and most simply, by combining the figures, the number of allegedly missed enrollment opportunities appears larger, and, consequently, of greater importance than if each delegate were considered individually. Second, by combining enrollment figures for all four delegate agencies, the OAS essentially treats the delegates as a single program when, operationally, they are four separate programs. By doing so, the OAS is holding each delegate responsible for enrollment in the other three programs even if that delegate has no vacancies. Furthermore, just as each center directly operated by CRT will have its own normal enrollment fluctuations, each delegate program will have its own normal fluctuations in enrollment related to factors in the community served. Vacancies in one delegate's program may not necessarily be filled with children from another delegate's service area. The delegate agencies are located in distinctly separate geographic areas. Therefore, the ability to fill all enrollment opportunities is not the same as if the delegates were one program, yet the OAS treats the four delegates as one. This improper combining of the delegates' enrollment figures, thus, distorts the level of allegedly missed enrollment opportunities for the delegate agencies.

More importantly, though, the enrollment levels found by the OAS for the delegate agencies do not support a finding of an enrollment problem for the delegates. OAS figures included on page 2 of the appendix to the OAS report show that the delegate agencies have, both in raw numbers and as a percentage of federally funded spaces, few purportedly missed enrollment opportunities. For example, the OAS numbers show that in 1999, an average of only 10 missed opportunities, which represents 3% of all enrollment opportunities. In 2000, average missed opportunities were 26 or 7%. When adjusted for normal enrollment fluctuations, the enrollment levels for the delegates really show no vacancies; therefore, the enrollment levels of the delegate agencies should not even have been considered by the OAS.

### 3. AMOUNT OF REFUND

In addition to making clerical errors and using improper methods in calculating the number of supposedly missed enrollment opportunities, the OAS made errors directly affecting the accuracy of its calculation of the size of the refund that it recommended. First, as previously discussed, the OAS did not consider the reasonable costs of the services that CRT provided to the community. The OAS also failed to consider the cost differences among the different

program options provided by CRT and the different centers operated. Furthermore, the OAS failed to adjust its calculations to reflect funds previously withheld by ACF and other mitigating factors, such as excess indirect costs and capital expenditures. When all of the factors are properly considered, CRT is actually entitled to over \$2,000,000 in additional funds.

It bears repeating that Head Start funding is based on the actual, reasonable costs of providing needed quality services to children and families within the bounds of federal funds appropriated for the program. CRT's actual expenditures have been examined by our auditors for the three years ended December 31, 2001, 2000 and 1999, in accordance with the appropriate U.S. Office of Management and Budget cost principles, and have been found to be reasonable and allowable. The OAS, however, failed to examine the reasonableness of CRT's actual expenditures in providing services to children and families within its Head Start service areas. The OAS report plainly notes that the OAS did not bother to look at any expenditure records in considering whether a refund should be required. See Report at 2. This failure to examine the reasonableness of CRT's Head Start program expenditures in light of the actual costs associated with serving the children and families who participated in the program is a crippling flaw in the OAS report. For this reason alone, the report's recommendation of a refund should be rejected.

The reasonableness of the counting of half-day session spaces is yet another major flaw in the calculation of the amount of the recommended refund by the OAS. The OAS apparently calculated a single cost per child slot for the four delegates and a single cost per child for CRT's Hartford and Middletown operations. However, CRT and its delegates offer several different program options, including part day and full day sessions, in several different centers. Yet, the OAS report apparently makes no adjustments for the different costs associated with different program options and different locations. Of particular note, the OAS seemingly makes no distinction between the cost of allegedly missed enrollment opportunities for full day spaces and for half day spaces, which would tend to inflate the overall amount of the recommended refund given the number of openings attributable to half day, double sessions.

Not only has the OAS used techniques that tend to inflate the amount of the recommended refund, it has failed to consider any mitigating financial factors that would reduce, and, in fact, more than offset the recommended refund. First, the OAS did not properly take into account the previous withholding of funds by ACF. For the year ended December 31, 2001, ACF withheld \$910,572 of Head Start funding from CRT. Although the OAS did reduce our funding base by \$910,572 when computing our cost per slot, it then applied the higher "Adjusted Award" amount to funded enrollment to arrive at an adjusted cost per slot, which, in effect, double penalized CRT by \$666,572. Thus, OAS has requested that CRT refund \$667,858, which we have actually never received.

The OAS also failed to take into account that for the years 1999 through 2001, CRT had to assume substantial indirect costs. CRT used a contracted 10.5% indirect cost rate for its Head Start program despite having approved federal indirect cost rates of 15%, 14.9% and 15.1% for the years ended December 31, 2001, 2000 and 1999, respectively. CRT actually incurred indirect costs far in excess of the amounts requested for reimbursement and these amounts have not been included in our 20% match requirements. The impact of accepting a lower indirect cost rates is summarized in the following table.

**Table 4.**

Calendar Year	Base per Form 269	Adjusted Base (20% Match)	Federal Share at approved federal indirect cost rates	Federal Share at contracted Head Start Rate	Federal Share per Form 269	Indirect Costs incurred by CRT in excess of Form 269
	A	A*80%	B		C	B-C
1999	\$7,443,208	\$5,954,560	\$ 899,140	\$ 625,230	\$ 619,773	\$279,367
2000	\$7,644,695	\$6,115,750	\$ 911,250	\$ 642,150	\$ 637,079	\$274,171
2001	\$8,432,127	\$6,745,700	\$1,011,855	\$ 708,300	\$ 687,255	\$324,600
						<u>\$878,138</u>

Additionally, OAS failed to consider that CRT has provided funding significantly in excess of the Head Start 20% match requirement for these same years. OAS further failed to consider the fact that CRT has incurred substantial start-up costs in preparing its Bloomfield, Newington, and Clinton sites. Under OAS's methodology, we would not be allowed to recover any capital costs relating to these site openings, contrary to the provisions of Head Start law. Finally, OAS also did not consider as an offsetting or mitigating financial factor, the impact of CRT's Early Childhood Education ("ECE") union contract on our fixed cost structure. The ECE contract was signed on June 20, 2001 but was retroactive to July 1, 2000. Consequently, the contract had a significant impact on CRT's salary and benefit costs for its Head Start program in 2001. When all of these offsetting factors are considered, CRT is actually entitled to an additional \$2,129,600.00 above the federal Head Start grant funds already received for 1999, 2000, and 2001, as shown in Exhibit 5.

### III. SUMMARY AND CONCLUSION

The OAS review of CRT's Head Start program suffers from significant problems in both methodology and application. First, the OAS applied an improper cost per child formula in calculating the amount of its recommended refund of grant funds. This methodology is at odds with Head Start policy and precedent, which require OAS to consider the quality and costs of services actually provided, external factors affecting enrollment, government actions, and CRT's enrollment-related efforts. However, in reaching its recommendations, OAS did not take into account any of these factors. Furthermore, even if the methodology employed by OAS had been correct, it was not applied properly. OAS made clerical errors in its calculations, did not allow for normal enrollment fluctuations, did not properly credit CRT for actual enrollment, did not account for organizational and programmatic variables, and applied techniques that tended to inflate purportedly missed enrollment opportunities. Therefore, the recommendation of the OAS that CRT refund a portion of its prior Head Start grant for missed enrollment opportunities is unfounded and should not be followed.

# ACKNOWLEDGMENTS

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