



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Region IX
Office of Audit Services
50 United Nations Plaza, Room 11
San Francisco, CA 94102

Report Number: A-09-04-00051

DEC 23 2004

Ms. Julie Irving
Executive Director
Child Development Resources of Ventura County, Inc.
221 Ventura Boulevard
Oxnard, California 93036

Dear Ms. Irving:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Compensation Practices for Executives and Teachers at Child Development Resources of Ventura County, Inc." A copy of the report will be forwarded to the HHS action official noted below for review and any actions deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. 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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Please refer to report number A-09-04-00051 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
For Audit Services

Enclosures — as stated

Page 2 – Ms. Julie Irving

Direct Reply to HHS Action Official:

Sharon Fujii,
Regional HUB Director
Administration for Children and Families, Region IX
U.S. Department of Health and Human Services
50 United Nations Plaza, Room 450
San Francisco, California 94102

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF COMPENSATION
PRACTICES FOR
EXECUTIVES AND TEACHERS AT
CHILD DEVELOPMENT RESOURCES
OF VENTURA COUNTY, INC.**



**DECEMBER 2004
A-09-04-00051**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

The Head Start program was enacted in 1964 to promote school readiness among low-income children by providing comprehensive health, educational, nutritional, social, and other services. To carry out the program, grants are awarded mainly to local public agencies, community-based nonprofit organizations, and school systems.

Following news articles and congressional inquiries relating to excessive executive compensation at some Head Start agencies, Federal Head Start officials asked the Office of Inspector General (OIG) to initiate a nationwide review of Head Start agencies' compensation practices. OIG selected nine Head Start grantees from a list of Head Start agencies provided by the Administration for Children and Families (ACF). One grantee selected for review was Child Development Resources of Ventura County, Inc. (CDR).

CDR is a private nonprofit organization that was incorporated in 1974.¹ CDR receives Federal and State funds to administer various programs. For each of the 3 grant years (2000 through 2002) we audited, CDR received Head Start funding from the Federal Government ranging from approximately \$7.4 million to \$8.8 million.

OBJECTIVE

Our objective was to determine whether CDR's compensation practices for five executives and the Head Start teachers were reasonable and consistent with Federal requirements.

SUMMARY OF FINDINGS

For the grant year ended March 31, 2003, CDR's compensation practices for executives and Head Start teachers were not reasonable or consistent with Federal requirements. The executives were paid more than the average compensation for comparable services in the local area, whereas the teachers were paid less.

- **Executive compensation was above the average for the local area.**
Compensation for four of the five CDR executives was high when compared to compensation for similar work in CDR's geographic area and in other Head Start programs. Head Start Act § 653 and Office of Management and Budget (OMB) Circular A-122 require that compensation be comparable to that paid for similar work in the local area. Compensation was high because CDR did not have a current wage comparability study and did not use an available nonprofit wage and benefit survey to adjust its executive compensation. The program funds used to compensate CDR's executives above the local average could have been used to provide more services to Head Start children and families.

¹In 1980, the organization changed its name from the Head Start Policy Council of Ventura County Inc. to Child Development Resources of Ventura County, Inc.

- **Head Start teacher salaries were below the average for the local area.** Salaries for CDR’s Head Start teachers were below the average rate for teachers in the area. CDR did not use quality improvement funds awarded by the Federal Government to increase teacher compensation. Federal regulations require that compensation be comparable to that paid for similar work in the local area, and that recipients of Federal awards manage and monitor activities supported by the award. According to CDR, most of the quality improvement funds were not used because of inadequate oversight by management. Insufficient salaries may hinder CDR’s ability to recruit and retain the most qualified teachers.

RECOMMENDATIONS

We recommend that CDR:

- take corrective actions to ensure that executive compensation is reasonable and meets the requirements of Head Start Act § 653,
- develop written procedures and guidance for conducting periodic wage comparability studies,
- improve oversight of quality improvement funds, and
- ensure that the Head Start teachers are provided salary increases consistent with Federal requirements.

CDR COMMENTS

In its written comments on the draft report, CDR concurred with our recommendations. However, CDR disagreed that it did not have a current wage comparability study. Also, CDR questioned whether it was reasonable for us to compare teacher positions at local area school districts with teacher positions at CDR.

We summarized and addressed CDR’s comments in more detail in the “Findings and Recommendations” section of this report and, where appropriate, made changes to the report to reflect CDR’s comments. The complete text of CDR’s comments is included as an appendix to this report.

OIG RESPONSE

We acknowledged in the draft report that CDR participated in a nonprofit wage and benefit survey. However, CDR provided no evidence to show that it used the information in the survey to compare and adjust executive compensation. To address CDR’s concerns about our comparison of teacher positions with local school districts, we added information to the report to show that the positions were comparable.

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INTRODUCTION

BACKGROUND

Head Start Program

The Head Start program was enacted in 1964 and is administered by ACF within the U.S. Department of Health and Human Services. The purpose of Head Start is to (1) 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) involve parents in their children's learning and to help parents make progress toward their educational, literacy, and employment goals. To carry out the program, grants are awarded mainly to local public agencies, community-based nonprofit organizations, and school systems.

Following news articles and congressional inquiries relating to excessive executive compensation at some Head Start agencies, Federal Head Start officials asked OIG to initiate a nationwide review of Head Start agencies' compensation practices. OIG selected nine Head Start grantees from a list of Head Start agencies provided by ACF. One grantee selected for review was CDR.

Child Development Resources of Ventura County, Inc.

CDR is a private nonprofit organization that was incorporated in 1974. During our audit period, it received over \$43.8 million annually in government and private contracts to provide comprehensive educational opportunities and child care resource and referral services. For each of the 3 grant years we audited, CDR received Head Start funding from the Federal Government ranging from approximately \$7.4 million to \$8.8 million. CDR employed over 70 Head Start teachers and offered Head Start services at 18 centers and 6 home-based groups to more than 1,000 children in Ventura County, CA.

ACF Compensation Study

In October 2003, Congress asked the Secretary of Health and Human Services to review financial management at Head Start grantees. The review was to include information on the salaries and benefits of Head Start executives and the portion charged to Head Start. To obtain the requested information, ACF contracted with Xtria, the Head Start Bureau's Program Information Report contractor, to conduct a salary survey of all Head Start programs. The survey results included detailed information on the compensation of most executive directors and Head Start directors in grant years 2000, 2001, and 2002. ACF provided us with data collected by Xtria, which we used in evaluating executive salaries.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether CDR's compensation practices for five executives and the Head Start teachers were reasonable and consistent with Federal requirements.

Scope

Our review covered CDR's Head Start grant years 2000, 2001, and 2002 (April 1, 2000, through March 31, 2003). We limited our review of cost-of-living increases and quality improvement funds for Head Start teaching staff to head teachers, teachers, home-based teachers, and substitute teachers. In addition, we limited our review of the wages paid to Head Start teachers to grant year 2002 (April 1, 2002, through March 31, 2003).

The five executives selected were the highest paid employees, at some point during the 3-year grant period, who received some or all of their compensation from Head Start funding.² Our review of compensation covered salaries, wages, incentive awards, fringe benefits, pension plan costs, allowances for offsite pay, incentive pay, location allowances, hardship pay, and cost-of-living differentials. We limited our review of internal controls to those controls related to the approval of compensation. It is possible that management received other forms of payment that we did not identify.

We performed our audit from January to August 2004, including fieldwork at the Region IX ACF office in San Francisco, CA, and at CDR's office in Oxnard, CA.

Methodology

To accomplish our objective, we:

- reviewed Federal regulations relating to the Head Start program and OMB Circular A-122, Cost Principles for Non-Profit Organizations;
- interviewed CDR officials and Region IX ACF officials;
- reviewed CDR organizational charts, payroll journals, and billing/invoice statements to determine the total compensation and funding sources for the executives selected;
- reviewed CDR personnel policies, procedures, and board of directors minutes to determine the compensation approval process;
- reviewed CDR's 1995 wage comparability study and the nonprofit wage and benefit survey for 2003;³
- compared CDR's compensation for the five executives for grant year 2002 with the compensation for comparable services shown in the Bureau of Labor

² The executives selected consisted of the Executive Director, Associate Executive Director/Head Start, Associate Executive Director/Child Care Services, Finance Director, and Human Resources Manager.

³ The nonprofit wage and benefit survey had salary and wage data as of January 2003.

Statistics' Occupational Employment Statistics (OES) wage estimates for the Ventura County area;⁴

- determined the top 100 Head Start programs by funded enrollment using the 2002 Program Information Report, and calculated the average chief executive officer and Head Start director compensation for the top 100 programs and for those California programs represented in the top 100 using the survey data collected by Xtria;⁵
- reviewed payroll records for grant year 2002 to determine the salaries paid to CDR teachers;
- reviewed teachers' compensation to determine if cost-of-living increases and quality improvement funds were used in accordance with Head Start program instructions;
- calculated a weighted average hourly rate for CDR teachers who had a bachelor's degree and compared that rate with the hourly rate for two local area school districts; and
- calculated a weighted average hourly rate for CDR head teachers' wages paid during grant year 2002 and compared that rate with the average rate used by CDR in its grant year 2002 proposal.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

For the grant year ended March 31, 2003, CDR's compensation practices for executives and Head Start teachers were not reasonable or consistent with Federal requirements. The executives were paid more than the average compensation for comparable services in the local area, whereas the teachers were paid less.

EXECUTIVE COMPENSATION

Compensation for four of the five CDR executives was high when compared to compensation for similar work in CDR's geographic area and in other Head Start programs. Compensation was high because CDR did not have a current wage comparability study and did not use an available nonprofit wage and benefit survey to adjust its executive compensation. The program funds used

⁴ The occupational and employment statistics report used was "2002 Metropolitan Area Occupational Employment and Wage Estimates – Ventura, CA." Estimates were calculated from data collected from employers in all industry sectors in Ventura County.

⁵ The data collected by Xtria and provided to us by ACF did not include information on salaries for all of the top 100 programs.

to compensate CDR's executives above the local average could have been used to provide more services to Head Start children and families.

Federal Requirements

Head Start Act § 653 provides that employees funded by the Head Start programs may not receive compensation that is "...in excess of the average rate of compensation paid in the area where the program is carried out to a substantial number of persons providing substantially comparable services...."

OMB Circular A-122 provides that in order to be reasonable, compensation for employees in organizations predominantly engaged in federally sponsored activities should be comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.

Executive Compensation Was Higher Than the Local Average

Compensation for four of the five CDR executives was high when compared to (1) executive compensation for comparable services shown in the Bureau of Labor Statistics' OES wage estimates for the Ventura County area, (2) average executive compensation for 14 Head Start programs in California included in the top 100 Head Start programs nationwide, and (3) average executive compensation for the top 100 Head Start programs nationwide. Total compensation included salaries, incentive payments, retirement contributions, and fringe benefits, excluding legally required fringe benefits such as Social Security and workers' compensation. Our comparison is presented in the table on the next page.

Executive Compensation Comparison – 2002

Position	CDR Compensation	Average Compensation per OES ⁶	California 14 Head Start Programs' Average Compensation	Nationwide 100 Head Start Programs' Average Compensation
Executive Director	\$224,294	\$197,714	\$155,242	\$133,578
Associate Executive Director, Head Start	148,703	124,946	120,797	95,359
Associate Executive Director, Child Care	151,113	124,946	NA	NA
Finance Director	122,266	109,379	NA	NA
Human Resources Manager	100,701	97,347	NA	NA

Compensation for the CDR executives was higher than average for similar work in CDR's geographic area. Also, compensation for the Executive Director and Associate Executive Director/Head Start was higher than the average compensation for other Head Start programs. The compensation data for the Head Start programs only included data for the executive director and Head Start director, therefore, no comparison could be made for the other three CDR positions.

The CDR executive compensation was funded in part by the Head Start program. The CDR compensation allocated to the Head Start program in grant year 2002 ranged from a low of 2 percent to a high of 83 percent.

CDR Did Not Have a Current Wage Comparability Study

CDR did not have a current wage comparability study to support executive compensation. Its personnel policies provided that a wage and salary comparability study be performed periodically to determine the need to modify the existing wage and salary schedule; however, the last wage comparability study conducted for all of CDR's employees was in 1995. CDR also did not have written procedures implementing its comparability policy and the actions it would take

⁶ The OES wage data reflective for year ended December 2002 was increased by 21 percent for employer cost of fringe benefits, excluding legally required benefits, such as Social Security and workers' compensation. The fringe benefit cost was computed from data collected by the Bureau of Labor Statistics. The adjusted wage and fringe benefit costs were further adjusted to March 2003 levels using the Employment Cost Index.

if compensation for employees whose activities were funded by the Head Start program was not comparable to the local average rate.

Although CDR participated in a nonprofit wage and benefit survey, CDR did not use this survey to determine if compensation paid to the CDR executives was in compliance with Head Start Act § 653 or to adjust executive compensation. CDR used the nonprofit survey for other purposes, such as determining if entry-level salaries for selected positions were competitive.

More Head Start Services Could Have Been Provided

The Head Start program provides a range of individualized services in the areas of education and early childhood development; medical, dental, and mental health; and parent involvement. The Head Start funds used to pay for above-average compensation for executives could have been used to provide more services to Head Start children and families.

TEACHER SALARIES

Salaries for CDR's Head Start teachers were below the average rate for teachers in the area. CDR did not use quality improvement funds awarded by the Federal Government to increase teacher salaries. According to CDR, most of the quality improvement funds were not used because of inadequate oversight by management. Insufficient compensation may hinder CDR's ability to recruit and retain the most qualified teachers.

Federal Requirements

OMB Circular A-122 provides that in order to be reasonable, compensation for employees in organizations predominantly engaged in federally sponsored activities should be comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.

The grant award provides that an organization must carry out the project according to the application as approved by ACF, including the proposed statement of work and any amendments. In addition, 45 CFR § 74.51 requires recipients to manage and monitor activities supported by the award. Further, Head Start Act § 640 states that the quality improvement funds are intended to improve the compensation of classroom teachers and thereby enhance the recruitment and retention of qualified staff.

Teacher Salaries Were Lower Than the Local Average and Quality Improvement Funds Were Not Used

In its proposal for quality improvement funds, CDR showed that its teachers were paid less than the community average. Our review also showed that CDR's Head Start teachers were paid less. For example, we compared the weighted average rate for CDR's teachers with bachelor's degrees to two local area school districts. Local area school districts require a bachelor's degree for an entry-level teaching position. We used local area school district salary information for entry-level, noncredentialed bachelor's degree positions.

CDR teachers with bachelor's degrees were paid significantly less than entry-level teachers in the two local area school districts. The CDR average rate was \$15.26, and the average rates paid for entry-level teachers in the Oxnard and Ventura School Districts were \$21.78 and \$23.72, respectively.

CDR was awarded quality improvement funds in grant year 2002 to increase teacher salaries. However, it did not do so.⁷ CDR informed us that the unused funds were returned to the Federal Government.

Management Did Not Provide Adequate Oversight

CDR did not sufficiently manage and monitor its Head Start program to ensure that quality improvement funds were used to increase the wages of its teaching staff. CDR officials said most of the funds were not used as shown in its proposal because of an unintentional mistake and a communications breakdown. CDR said that it was reorganizing during this period, and the reorganization process negatively affected CDR's oversight of the program.

Lack of Wage Increase May Affect Recruitment and Retention

The quality improvement funds should be used to enhance recruitment and retention of qualified staff, which has long been a priority of the Head Start program. Because CDR's Head Start teachers' salaries have not been increased consistent with Federal requirements, CDR may not be able to recruit and retain the most qualified staff.

RECOMMENDATIONS

We recommend that CDR:

- take corrective actions to ensure that executive compensation is reasonable and meets the requirements of Head Start Act § 653,
- develop written procedures and guidance for conducting periodic wage comparability studies,
- improve oversight of quality improvement funds, and
- ensure that the Head Start teachers are provided salary increases consistent with Federal requirements.

⁷ We estimated that about \$1,550 of the \$56,966 in quality improvement funds awarded was used to provide wage increases to four teachers for educational accomplishments.

CDR COMMENTS

In its written comments on the draft report, CDR concurred with all of our recommendations for executive compensation and teacher salaries. However, CDR disagreed with our finding that it did not have a current wage comparability study and questioned our teacher salary comparison.

For executive compensation, CDR's corrective actions included conducting a wage survey for Ventura County and establishing a more defined compensation policy, which was approved by its Board of Directors. Also, CDR stated that it froze salaries identified to be above the average for like positions in Ventura County and established procedures for conducting periodic wage comparability studies. For teacher salaries, CDR's corrective actions included retroactively paying Head Start staff who did not receive pay increases from the September 2002 grant award. Also, CDR stated that, in May 2004, it established procedures to ensure that future awards would be implemented in a timely manner.

CDR disagreed with our finding that it did not have a current wage comparability study. CDR stated that it participated annually in a nonprofit wage and benefit survey and used the results to compare wages for positions at CDR. It also stated that teacher salaries at two local school districts, which we used as a basis of comparison in our report, may not be comparable to salaries for CDR teachers with a bachelor's degree. According to CDR, most teacher positions at local school districts require credentials that include an additional year of education beyond a bachelor's degree. CDR did not have the same requirement.

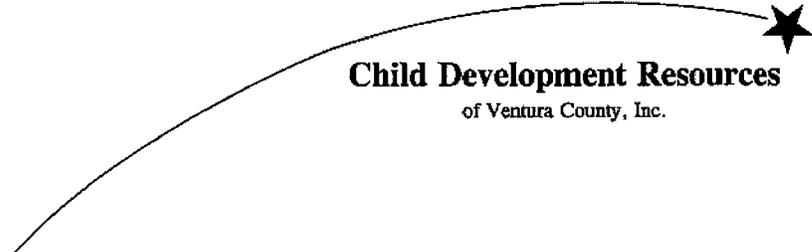
The complete text of CDR's comments is included as an appendix to this report.

OIG RESPONSE

We acknowledged in the draft report that CDR participated in a nonprofit wage and benefit survey. The survey information showed average base salaries for various positions depending upon six factors, such as the organization's budget size and geographic area. CDR provided no evidence that it used the survey information to compare compensation paid to CDR executives or to adjust executive compensation.

We compared CDR teacher positions with local district positions that had similar requirements. We added information to the report to show that we used salaries for entry-level, noncredentialed teachers with a bachelor's degree.

APPENDIX



Child Development Resources
of Ventura County, Inc.

November 10, 2004

Ms. Lori A. Ahlstrand
Regional Inspector General For Audit Services
Office of Audit Services
Region IX
50 United Nations Plaza, Room 171
San Francisco, CA 94102

Report Number: A-09-04-00051

Dear Ms. Ahlstrand:

Enclosed please find the response to the draft report from the Department of Health and Human Services, Office of Inspector General, entitled "Review of Compensation Practices for Executives and Teachers" for Child Development Resources of Ventura County, Inc.

We would like to thank you for the opportunity to respond and insure you that the results of the report will serve to make our operations even more efficient and effective.

Should you have any questions, please contact me at (805) 485-7878 ext. 559.

Sincerely,



Julie Irving
Executive Director



Lela Henke-Dobroth
President, Board of Directors

Enclosure

CHILD DEVELOPMENT RESOURCES OF VENTURA COUNTY, INC (CDR)
Formal Response – HHS OIG Report Number: A-09-04-00051

FINDING 1

EXECUTIVE COMPENSATION

Compensation for four of the five CDR executives was high when compared to compensation for similar work in CDR's geographic area and in other Head Start programs. Compensation was high because CDR did not have a current wage comparability study and did not use an available nonprofit wage and benefit survey to adjust its executive compensation. The program funds used to compensate CDR's executives above the local average could have been used to provide more services to Head Start children and families.

"Compensation for four of the five executives was high..." (p. 3)

CDR Response – Concur

According to the Occupational Employment Statistics Survey selected by the auditors, to conduct comparisons, four of the five executive's salaries were above the average wage for the period tested.

Corrective action

Per direction from Region IX officials, during June and July 2004 CDR conducted a wage survey for the Ventura County region only. The results of the survey provided justification for the COLA application. A more defined compensation policy was established and approved by the Board of Directors and the Head Start Policy Council effective September 2004. Salaries identified to be above the average for like positions in Ventura County were frozen.

Clarification

1. Page 4 under the section *Federal Requirements* states, "OMB Circular A-122 provides that in order to be reasonable, compensation for employees in organizations predominantly engaged in federally sponsored activities should be comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved."

While the federal Head Start program is a very vital service delivered by CDR, it is important to note that Head Start constitutes only 20-23% of CDR's overall funding.

2. Page 1 of the report titled *Introduction*, under the heading *ACF Compensation Study* states, "The review was to include information on the salaries and benefits of Head Start executives and the portion charged to Head Start."

The following chart includes salaries and benefits of CDR Head Start executives and the portion charged to Head Start. The chart identifies that a total \$233,778 annually or 2.2% of CDR's entire Head Start budget was

allocated to executive salaries. This cost resulted in an expense of \$190.68 per enrolled student and family; only 2.25% of the \$8,516.59 CDR expends per enrolled child each year.

Position	CDR Compensation	Average Compensation Per OES ⁵	California 14 Head Start Programs' Average Compensation	Nationwide 100 Head Start Programs' Average Compensation	% of time devoted to Head Start	Amount Allocated to Head Start
Executive Director	\$224,294	\$197,714	\$155,242	\$133,578	23.66%	\$53,068
Associate Executive Director, Head Start	148,703	124,948	120,797	95,359	83%	\$123,424
Associate Executive Director, Child Care	151,113	124,946	NA	NA	3%	\$4,533
Finance Director	122,266	109,379	NA	NA	23.66%	\$28,928
Human Resources Manager	100,701	97,347	NA	NA	23.66%	\$23,825

Total: \$233,778

3. *On page 2 of the report under Scope, it states, "It is possible that management received other forms of payment that we did not identify."*

CDR certifies that executives receive the same benefits and forms of payment as all other staff. There are no special compensation practices exclusive to executives in the agency.

"Compensation was high because CDR did not have a current wage comparability study...."(pp. 3 & 4)

CDR Response – Do Not Concur

CDR does not agree with this statement. In fact, for nearly every year of the past ten, CDR has participated in The Compensation & Benefits Survey of Southern and Central California Nonprofit Organizations, produced by the Center for Nonprofit Management. All CDR positions were submitted for the survey; not a single position was excluded. The results of the survey were used to determine the comparison of CDR's wages with those of others in our region, as well as to set salaries for new positions in the organization.

Clarification

1. CDR strives to be competitive in the labor market and be an employer of choice in Ventura County as established by the strategic plan for the organization. Therefore, CDR participated annually in the aforementioned survey. CDR defined its service area as Southern California since 23%¹ of the Ventura County workforce leaves the county borders each day for employment. This means that CDR competes with a labor market beyond its county boundaries. In addition, there are no other agencies quite like CDR in Ventura County in mission, services, scope or size.

The correction by the Regional Office of the definition of "area" in the law to be the "county" in which business is conducted, is greatly appreciated. It is our hope that further clarification of the law will be forthcoming as we found it to be ambiguous in this regard.

In conclusion, CDR, in fact, participated in a wage survey annually and used the results of the survey as a means of wage comparison for the positions at CDR. Any assertion that CDR did not have a current wage survey in place is refuted.

FINDING 2

TEACHER SALARY

Salaries for CDR's Head Start teachers were below the average rate for teachers in the area. CDR did not use quality improvement funds awarded by the Federal Government to increase teacher salaries. According to CDR, most of the quality improvement funds were not used because of inadequate oversight by management. Insufficient compensation may hinder CDR's ability to recruit and retain the most qualified teachers.

"Teachers salaries were lower than the local average and Quality improvement funds were not used..." (p.6)

CDR Response - Concur

As a result of an oversight by CDR Management, a Quality Improvement Grant awarded in 2002 was not implemented.

Corrective action

As of May 2004 the following corrective action was implemented:

- A. CDR identified Head Start staff that did not receive employability, wage differential and individual increases as awarded in the Quality Improvement Grant awarded September 2002.
- B. Retroactive payments were calculated as follows:
 1. Staff eligible for authorized increase(s) were identified.

¹ Source: U.S. Census Bureau Census 2000

2. Eligible staff rates and payment history were determined.
3. Rates were calculated and payments processed for eligible staff. Payments were distributed to staff May 2004.

Clarification

We agree with the fact that the Quality Improvement Grant was not implemented. We appreciate that the audit brought this unintended error to our attention. Upon receiving information in this regard, CDR has since put into place the corrective action and all eligible employees were compensated fully and retroactively.

It is important to note that these designated funds were **not** used for any other purpose and were returned to the funding source at the end of the fiscal year. For example, the cost of implementing the grant award at that time would have been \$41,547 and the amount of \$47,185 was returned to the federal government at the conclusion of the year; well in excess of the amount of funds required to implement the grant.

"CDR did not sufficiently manage and monitor its Head Start program to insure that Quality Improvement Funds were used to increase the salaries of its teaching staff." (p.7)

CDR Response - Concur

CDR accepts responsibility for the oversight and insures that any future grant awards will be implemented timely.

Corrective action

Effective May 2004 procedures were implemented to assure proposals were distributed to appropriate individuals and required follow up was completed to assure future awards would be implemented in a timely manner.

Clarification

1. Page 7 states, "*The quality improvement funds should be used to enhance the recruitment and retention of qualified staff, which has long been a priority of the Head Start program. Because CDR's Head Start teachers' salaries have not increased consistent with federal requirements, CDR may not be able to recruit and retain the most qualified staff.*"

With the exception of this one oversight, CDR does increase teachers' salaries consistent with Federal requirements including all awarded COLA adjustments, merit increases and one time only remuneration payments for excellent performance.

In regard to recruitment and retention issues, it is CDR's belief that it attracts the most qualified staff for the positions as evidenced by our nearly flawless PRISM Review this year. In addition, it is important to also note that CDR received nearly one hundred applications for the four open teacher positions last year, underscoring the agency's ability to recruit qualified staff.

In an industry that is plagued with an average 40-60% turnover rate, CDR is proud of its 15 to 18% turnover rate over the last three years with a 10% turnover rate for teachers during the last fiscal year.

2. *Page 3 under methodology, bullet ten, states, "Calculated a weighted average hourly rate for CDR teachers who had a bachelor's degree and compared that rate with the hourly rate for two local area school districts."*

The survey of school districts in the county conducted by the auditor raises questions for CDR because most teacher positions require credentials that include an additional year of education beyond a bachelor's degree. CDR and Head Start standards do not require a credential; therefore, the school district positions surveyed may not be comparable to those at CDR.

CDR Response to Recommendations:

Recommendation 1

Take corrective actions to ensure that executive compensation is reasonable and meets the requirements of the Head Start act section 653

Action Taken: Completed August 2004 and with periodic future salary surveys.

Recommendation 2

Develop written procedures and guidance for conducting periodic wage comparability studies

Action Taken: The Human Resources Department developed a procedure (adopted November 2004) for conducting periodic wage comparability studies.

Recommendation 3

Improve oversight of quality improvement funds

Action Taken: System adopted May 2004 to insure that all grant awards including those for quality improvement are implemented timely.

Recommendation 4

Ensure that Head Start teachers are provided salary increases consistent with Federal requirements

Action Taken: CDR will continue its commitment to improve employee salaries insuring that they do not exceed the average for like positions in Ventura County through the implementation of salary increases, one time only remunerations based on performance and the implementation of appropriate grant awards.

Correction to background information:

CDR was established in 1980, not in 1974 as documented in the report.