



March 23, 2010

**TO:** Yvette Sanchez Fuentes  
Director, Office of Head Start  
Administration for Children and Families

**FROM:** /Lori S. Pilcher/  
Assistant Inspector General for Grants, Internal Activities,  
and Information Technology Audits

**SUBJECT:** Office of Head Start – Internal Control Review of the Noncompetitive Process for  
Awarding American Recovery and Reinvestment Act of 2009 Funds  
(A-01-09-02506)

The attached final report provides the results of our review of internal controls over the Office of Head Start's process for competitively awarding American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), funds. This review was part of the Office of Inspector General's (OIG) assessment of whether the Department of Health & Human Services is using Recovery Act funds in accordance with legal and administrative requirements and is meeting the accountability objectives defined by the Office of Management and Budget.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov). Please refer to report number A-01-09-02506 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**OFFICE OF HEAD START –  
INTERNAL CONTROL REVIEW OF THE  
NONCOMPETITIVE PROCESS FOR  
AWARDING AMERICAN RECOVERY AND  
REINVESTMENT ACT OF 2009 FUNDS**



Daniel R. Levinson  
Inspector General

March 2010  
A-01-09-02506

# *Office of Inspector General*

<http://oig.hhs.gov>

---

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

## *Office of Audit Services*

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

## *Office of Evaluation and Inspections*

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

## *Office of Investigations*

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

## *Office of Counsel to the Inspector General*

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

# *Notices*

---

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

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## EXECUTIVE SUMMARY

### BACKGROUND

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

Every taxpayer dollar spent on the economic recovery must be subject to unprecedented levels of transparency and accountability. The five crucial objectives for the U.S. Department of Health & Human Services and its agencies are:

- Recovery Act funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes, and every step is taken to prevent instances of fraud, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Projects funded under the Recovery Act ensure program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. An Office of Management and Budget memorandum (April 3, 2009) updated initial implementing Recovery Act guidance (February 18, 2009) and requires that all Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement appropriate oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

Head Start was established as a Federal discretionary grant program by Title VI of the Omnibus Budget Reconciliation Act of 1981, P.L. No. 97-35. The Head Start program funds local public and private nonprofit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families and to promote school readiness by enhancing the social and cognitive development of children.

The Office of Head Start (OHS) within the Administration of Children and Families (ACF) administers the Head Start and Early Head Start Programs.

The Recovery Act provides \$2.1 billion to the ACF to supplement the Head Start and Early Head Start programs. Of the \$2.1 billion, the Act earmarks \$1 billion to carry out activities under the

Head Start Act. The remaining \$1.1 billion is for the expansion of the Early Head Start program. The Recovery Act funds will remain available for obligation until September 30, 2010.

OHS allocated a portion of the Recovery Act and FY 2009 appropriations to existing Head Start grantees for program quality improvements and a 4.9 percent cost-of-living (COLA) increase, pursuant to the Recovery and Head Start Acts. To receive these additional funds, grantees submitted noncompetitive applications that included plans detailing how the funds will be spent.

## **OBJECTIVE**

Our objective was to assess the internal controls that OHS has in place over the noncompetitive process used to award Recovery Act quality improvement and COLA funds to determine whether the controls have been suitably designed.

## **RESULTS OF REVIEW**

OHS's internal controls over the noncompetitive process used to award Recovery Act funds, as described by OHS management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were applied as designed.

This report provides a sufficient understanding of OHS's process for awarding Recovery Act funds to grantees as the process pertains to internal control objectives in these areas:

- Authorization and approval: transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority.
- Accuracy, validity, and completeness: all transactions should be consistent with the originating data and fairly represent the economic events that actually occurred, and no valid transactions should be omitted.
- Physical safeguards and security: physical controls need to be established to secure and safeguard vulnerable assets and to limit access to resources and records to authorized individuals.
- Error handling: errors detected at any stage of processing should receive prompt corrective action and be reported to the appropriate level of management.
- Segregation of duties: key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

## TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTION</b> .....	1
<b>BACKGROUND</b> .....	1
Recovery Act Requirements .....	1
Administration for Children and Families .....	1
Recovery Act Funding for Head Start Programs .....	2
Recovery Act Funds for Quality Improvement and Cost of Living Increases .....	3
<b>OBJECTIVE, SCOPE, AND METHODOLOGY</b> .....	3
Objective .....	3
Scope .....	3
Methodology .....	4
<b>RESULTS OF REVIEW</b> .....	4
<b>AUTHORIZATION AND APPROVAL</b> .....	5
Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Grant Eligibility Requirements Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy .....	5
Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Information and Methods Used to Publicize the Program Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy .....	5
Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That Grant Application Processing Procedures Are Established and Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy .....	6
Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That Grantee Procedures for Control, Use, and Reporting of Grant-Funded Operations Are in Accordance with Laws, Regulations, Recovery Act Guidance, and Agency Policy .....	6
Internal Control Objective 5: Internal Controls Provide Reasonable Assurance That Grant Requirements Are Noted and Are in Place .....	7
<b>ACCURACY, VALIDITY, AND COMPLETENESS</b> .....	7
Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Program Objectives Are Achievable in an Economical and Efficient Manner .....	7
Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Procedures Used to Process and Approve Grant Applications and Related Transactions Are Efficient .....	7

Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That Only Those Grant Requests That Meet the Eligibility Requirements Are Approved .....	8
Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That the Grant Funds Are Awarded and Classified in Accordance With Federal and Recovery Act Policy .....	8
Internal Control Objective 5: Internal Controls Provide Reasonable Assurance That Grantee Records Are Periodically Substantiated and Evaluated.....	8
<b>PHYSICAL SAFEGUARDS AND SECURITY .....</b>	<b>9</b>
Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Access to and Use of Grant and Accounting Records, Critical Forms, Processing Areas, and Processing Procedures Are Permitted Only in Accordance With Policy.....	9
Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Valuable Assets and Information Are Safeguarded From Unauthorized Access or Use.....	9
<b>ERROR HANDLING .....</b>	<b>9</b>
Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That the Office of Head Start Accurately and Promptly Addresses Errors in Grant Application Information and Records .....	9
<b>SEGREGATION OF DUTIES .....</b>	<b>10</b>
Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Opportunities for an Individual To Cause and Conceal Errors Are Reduced .....	10

# INTRODUCTION

## BACKGROUND

### Recovery Act Requirements

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

According to the Department of Health & Human Services (HHS) Recovery Act Web site,<sup>1</sup> every taxpayer dollar spent on the economic recovery must be subject to unprecedented levels of transparency and accountability. The five crucial objectives for HHS and its agencies are:

- Recovery Act funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes, and every step is taken to prevent instances of fraud, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Projects funded under the Recovery Act ensure program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. An Office of Management and Budget (OMB) memorandum (April 3, 2009) updated initial implementing Recovery Act guidance (February 18, 2009) and requires that all Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement appropriate oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

### Administration for Children and Families

Within HHS, the Administration for Children and Families (ACF) is responsible for Federal programs that promote the economic and social well-being of families, children, individuals, and communities. ACF's programs help to build strong, healthy, supportive communities that have a positive impact on the quality of life and the development of children.

---

<sup>1</sup><http://www.hhs.gov/recovery/reports/index.html>, accessed October 9, 2009.

### *Head Start and Early Head Start Programs*

Head Start was established as a Federal discretionary grant program by Title VI of the Omnibus Budget Reconciliation Act of 1981, P.L. No. 97-35. The Head Start program funds local public and private nonprofit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families and to promote school readiness by enhancing the social and cognitive development of children.

In fiscal year (FY) 1995, the Early Head Start program was established to serve children from birth to 3 years of age in recognition of the mounting evidence that the earliest years greatly affect children's growth and development. Early Head Start promotes healthy prenatal outcomes, enhances the development of infants and toddlers, and promotes healthy family functioning.

In FY 2009, Congress appropriated \$7.1 billion to fund Head Start's and Early Head Start's regular operations.

#### *Office of Head Start*

The Office of Head Start (OHS) within ACF administers the Head Start and Early Head Start Programs.<sup>2</sup> OHS has the authority to determine the recipients of the grants and the amounts awarded. Program and Grant Management Specialists in OHS's 10 regional offices award noncompetitive grants to eligible Head Start grantees.

### **Recovery Act Funding for Head Start Programs**

The Recovery Act provides \$2.1 billion to ACF to supplement the Head Start programs. Of the \$2.1 billion, the Act earmarks \$1 billion to carry out activities under the Head Start Act and the remaining \$1.1 billion for the expansion of the Early Head Start program. The Recovery Act funds will remain available for obligation until September 30, 2010.

Following the funding requirements outlined in the Head Start and Recovery Acts, OHS plans to use the \$2.1 billion in Recovery Act funds to:

- expand the number of children enrolled in Head Start programs;
- fund one-time program quality improvements for existing Head Start grantees;
- partially fund a 4.9-percent cost-of-living (COLA) increase for employees of existing grantees;

---

<sup>2</sup>In the Head Start Act and throughout this report, the Head Start and Early Head Start programs are collectively referred to as "Head Start programs" unless otherwise noted.

- increase the training and technical assistance funds available to new and existing Head Start grantees;
- increase funding to allow for monitoring of all new grantees; and
- increase funding for State Head Start Advisory Councils, which ensure statewide coordination and collaboration among early childhood programs and services in the State, including Head Start, child care, and prekindergarten programs and services.

## **Recovery Act Funds for Quality Improvement and Cost of Living Increases**

OHS earmarked \$353,779,000 of Recovery Act funds for quality improvements. Grantees must use at least 50 percent of these program quality improvement funds to improve the compensation of educational personnel, family service workers, and child counselors. The remaining funds must be used to extend services or improve the quality of programs in specific areas.

OHS also earmarked \$325,577,000 from Recovery Act funds and FY 2009 appropriations for COLA awards to increase Head Start staff salaries and fringe benefits.<sup>3</sup> In addition to funding a 4.9 percent increase in current employees' hourly rate of pay, grantees must use a portion of the funds to permanently increase their agency's Head Start pay scale.

To receive these additional funds, current grantees submitted applications that included plans detailing how the funds would be spent.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to assess the internal controls that OHS has in place over the noncompetitive process used to award Recovery Act quality improvement and COLA funds to determine whether the controls have been suitably designed.

### **Scope**

We assessed OHS's internal controls over the noncompetitive grant award process used to award Recovery Act funds for quality improvements and COLA. Our assessment was limited to determining whether existing internal controls as described adequately achieved the internal control objectives for (1) authorization and approval; (2) accuracy, validity, and completeness; (3) physical safeguards and security; (4) error handling; and (5) segregation of duties.

We did not perform procedures to determine the operating effectiveness of these internal controls. Accordingly, we express no opinion on the operating effectiveness of any aspect of

---

<sup>3</sup>The 4.9 percent COLA funding consists of \$120,534,000 of Recovery Act funds (1.8 percent) and \$205,043,000 of FY 2009 Head Start appropriations (3.1 percent).

OHS's internal controls over the noncompetitive process used to award Recovery Act funds, individually or in the aggregate.

We performed fieldwork at OHS offices in Washington, D.C., in May 2009.

## **Methodology**

The internal control environment represents the collective effect of a number of elements in establishing, enhancing, or mitigating the effectiveness of specific policies and procedures. To gain an understanding of OHS's internal control environment, we:

- reviewed relevant Federal laws and regulations, including Recovery Act guidance issued by OMB, that OHS must follow for awarding grants;
- reviewed ACF and OHS organizational structure, including segregation of functional responsibilities, policy statements, operating manuals, and personnel policies;
- interviewed ACF and OHS management as well as operations, administrative, and other personnel responsible for developing, ensuring adherence to, and applying internal controls; and
- reviewed the noncompetitive process for quality improvements and COLA increases funded with Recovery Act funds.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results based on our audit objective.

## **RESULTS OF REVIEW**

OHS's internal controls over the noncompetitive process used to award Recovery Act funds, as described by OHS management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were applied as designed.

This report provides a sufficient understanding of OHS's process for awarding Recovery Act funds to grantees as the process pertains to internal control objectives in these areas:

- Authorization and approval: transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority.
- Accuracy, validity, and completeness: all transactions should be consistent with the originating data and fairly represent the economic events that actually occurred, and no valid transactions should be omitted.

- Physical safeguards and security: physical controls need to be established to secure and safeguard vulnerable assets and to limit access to resources and records to authorized individuals.
- Error handling: errors detected at any stage of processing should receive prompt corrective action and be reported to the appropriate level of management.
- Segregation of duties: key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

## **AUTHORIZATION AND APPROVAL**

### **Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Grant Eligibility Requirements Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy**

- Authorized OHS staff create Program Instructions (PIs) that announce noncompetitive funding opportunities to current Head Start grantees. The Director of OHS signs the finalized PIs before they are posted to OHS's Early Childhood Learning and Knowledge Center (ECLKC) Web site.
- Before the PIs are posted, staff from all involved ACF offices review and approve the funding requirements spelled out in the PIs for accuracy and compliance with Division of Grant Policy administration policies and provisions, as outlined in ACF's Program Announcement Processing Guide. Reviewers for the Recovery Act-funded PIs include staff in the Division of Grant Policy, the Office of Legislative Affairs and Budget, the Office of the General Counsel, the Office of the Assistant Secretary, and the Office of Grant Management.
- OHS staff review PIs for compliance with the Head Start Act, Head Start Performance Standards, and the Recovery Act as applicable. The COLA PI, for example, included instructions that employee compensation cannot exceed the compensation limitations established in the Head Start Act.

### **Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Information and Methods Used To Publicize the Program Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy**

- OHS posts PIs describing the quality improvement and COLA funding available to current grantees on its ECLKC Web site. The PIs serve as an advance announcement to inform grantees of the available funding and encourage timely awarding of Recovery Act funds.

- Because quality improvement and COLA funds are available to existing grantees only, Regional Grant Officers mail specific quality improvement and COLA allocation information and application instructions directly to eligible grantees, in accordance with ACF's *Grants Administration Manual*. Letters include the maximum quality improvement and COLA funds for which grantees can apply.

**Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That Grant Application Processing Procedures Are Established and Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy**

- OHS evaluates grant applications in a fair, equitable, timely, and bias-free manner based on procedures defined in the HHS Awarding Administration *Grants Administration Manual*.
- Two groups of OHS Regional staff reviews applications for supplementary quality improvement and COLA funds, pursuant to ACF's *Grants Administration Manual*. Grant Management staff conduct financial reviews of applications to assess the reasonableness and allowability of costs. Program Specialists review program narrative statements included with applications for compliance with Head Start regulations.
- Independent auditors perform periodic reviews of OHS's grant application processing procedures during annual audits to ensure that these procedures comply with OMB Circular A-123.

**Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That Grantee Procedures for Control, Use, and Reporting of Grant-Funded Operations Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy**

- Federal grant regulations require grantees to meet the Uniform Administrative Requirements, including the standards for financial management systems, found at 45 CFR §§ 74 or 92, as applicable. Additionally, grantees must meet the cost principles found at 2 CFR §§ 220, 225, or 230, as applicable.
- OHS provides information on its ECLKC Web site to educate grantees on the Federal, HHS, Head Start, and Recovery Act operating requirements. In addition to applicable criteria, OHS posts explanations and interpretations of the regulations, as well as a question and answer section.
- OHS considers existing grantee's past performance and internal control reviews conducted during program monitoring visits before approving additional grant awards.
- OHS has partnered with the HHS Office of Inspector General, Office of Audit Services, to perform reviews of high-risk grantees before OHS approves additional funding.

- Before OHS approves grant awards, it requires all Head Start grant recipients to sign certifications and assurances, including a Disclosure Form to Report Lobbying; assurance to comply with the Davis-Bacon Act (for construction projects); a Certification Regarding Debarment, Suspension, and Other Responsibility Matters; and ACF's Assurances Statement for construction or nonconstruction grants.

**Internal Control Objective 5: Internal Controls Provide Reasonable Assurance That Grant Requirements Are Noted and Are in Place**

- The Authorized Organization Representative's signature on the grant application ensures that the applicant organization will be accountable both for the appropriate use of funds awarded and for the performance of the grant-supported project or other activities resulting from the application. The Authorized Organization Representative is also responsible to OHS for ensuring that the organization complies with the terms and conditions of individual awards and organization-wide requirements, such as those concerning financial management and property management.
- A grantee implicitly acknowledges and accepts an OHS award and its associated terms and conditions by drawing down grant funds. Once the award is accepted by the grantee, the terms and conditions of the award are binding.

**ACCURACY, VALIDITY, AND COMPLETENESS**

**Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Program Objectives Are Achievable in an Economical and Efficient Manner**

- Pursuant to the Head Start Performance Standards (45 CFR 1302.10), OHS selects Head Start applications based on the grantee's qualifications and experience in providing comprehensive child development services and their ability to operate the most effective Head Start programs. During the application review process, OHS considers the cost effectiveness and the suitability of the proposed use of additional quality improvement and COLA funds, as well as the grantees' adherence to the Head Start Performance Standards.

**Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Procedures Used To Process and Approve Grant Applications and Related Transactions Are Efficient**

- To expedite the grant application and review processes, OHS has developed uniform grant application forms, instructions for supplemental application information, and preprinted forms.
- Grantees send applications directly to their Regional Offices, as described in the quality improvement and COLA PIs. Regional Grant Management and Program staff, who have a working relationship with the grantees, review them for compliance with the Head Start Act and Head Start Performance Standards.

- The cognizant Grant Management and Project staff concurrently review the grant applications to ensure that the review process is efficient.

**Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That Only Those Grant Requests That Meet the Eligibility Requirements Are Approved**

- To ensure that only eligible grant applications are approved, OHS has established a multistep process that addresses ineligible applications at each step. Regional Grant Management staff review applications for reasonableness and allowability of costs as outlined in cost principles found at 2 CFR §§ 220, 225, or 230, as applicable. Program staff review applications for Head Start Performance Standards and other relevant requirements.
- All Head Start grantees are eligible for quality improvement and COLA increases. However, if OHS has concerns about a grantee’s ability to meet Head Start Performance Standards, it can assign “special award conditions” to an award, pursuant to HHS’s *Awarding Agency Grants Administration Manual*. Special award conditions may include using a reimbursement payment method rather than advance payment, or more frequent financial or progress reporting.

**Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That the Grant Funds Are Awarded and Classified in Accordance with Federal and Recovery Act Policy**

- OHS calculates and monitors the quality improvement and COLA funds available and awarded to ensure that the total funds awarded do not exceed the appropriated amount, pursuant to the Anti Deficiency Act (31 USC § 1341(a)(1)).
- OHS calculates and monitors the total grant funds awarded to each State or competitive area to ensure that funds are allocated pursuant to section 640 of the Head Start Act.
- OHS established separate Common Account Numbers to track Recovery Act grant awards, in accordance with Recovery Act reporting requirements.

**Internal Control Objective 5: Internal Controls Provide Reasonable Assurance That Grantee Records Are Periodically Substantiated and Evaluated**

- Pursuant to OMB Circular A-133 and 45 CFR §§ 74.26 or 92.26 as applicable, grantees that expend more than \$500,000 in a fiscal year are required to obtain audits of their organization’s operations annually from private accounting firms.

- OHS Grant Management Officers and Program Officials use monitoring reports, correspondence from the grantee, financial statement audit reports, risk management meetings, and other available information to monitor cost and performance results, identify potential problems, and identify areas that may require technical assistance or enforcement action.

## **PHYSICAL SAFEGUARDS AND SECURITY**

### **Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Access to and Use of Grant and Accounting Records, Critical Forms, Processing Areas, and Processing Procedures Are Permitted Only in Accordance With Policy**

- OHS provides for physical safeguards such as controlled access to buildings, files, and processing areas. OHS's administrative offices are housed in a secure building where only employees with smart cards can access the office floor and office space.
- OHS limits staff access to specific grant applications, records, and forms through computer-user restrictions and passwords.

### **Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Valuable Assets and Information Are Safeguarded From Unauthorized Access or Use**

- OHS requires that its employees take annual security awareness training, which includes training on securing personally identifying information and safeguarding proprietary information.

## **ERROR HANDLING**

### **Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That the Office of Head Start Accurately and Promptly Addresses Errors on Grant Application Information and Records**

- Regional Grant Management staff review applications for compliance with financial and business aspects of the grant award. Regional Program staff evaluate applications for compliance with program objectives. If errors are uncovered during these reviews, OHS's Regional staff work with grantees to address application errors and unallowable costs prior to awarding additional quality improvement or COLA funds.

## **SEGREGATION OF DUTIES**

### **Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Opportunities for an Individual To Cause and Conceal Errors Are Reduced**

- During the application review process, segregation of duties ensures that no single person reviews and funds applications. These controls reduce opportunities for an individual to cause or conceal errors. For example, Grant Management staff are responsible for reviewing and approving the financial aspects of the grant applications, and Program staff evaluate applications for compliance with program objectives.
- Both the Regional Program and Grant Officers sign the Financial Assistance Application Approval/ Negotiation Sheet, which serves as the official record of the application review of a noncompeting continuation application.