



March 11, 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 Competitive Process for  
Awarding American Recovery and Reinvestment Act Funds (A-01-09-02507)

The attached final report provides the results of our review of internal controls over the process for competitively awarding American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), funds at the Office of Head Start (OHS). This review was part of the Office of Inspector General's (OIG's) assessment of whether the Department of Health and 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.

The Recovery Act, which was signed into law by President Obama on February 17, 2009, 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.

Our objective was to assess the internal controls that OHS has in place over the competitive grant-award process used to award Recovery Act expansion funds to determine whether the controls have been suitably designed.

OHS's internal controls over the competitive grant-award 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; accuracy, validity and completeness; physical safeguards and security; error handling; and segregation of duties.

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

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may 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-01-09-02507 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

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



Daniel R. Levinson  
Inspector General

March 2010  
A-01-09-02507

# *Office of Inspector General*

<http://oig.hhs.gov>

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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.

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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*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
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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 and Human Services (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.

### Recovery Act Funding for Head Start Programs

The Recovery Act provides \$2.1 billion to the Administration for Children and Families (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.

Head Start was established as a Federal discretionary grant program by Title VI of the Omnibus Budget Reconciliation Act of 1981, P.L. 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.

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

## **OBJECTIVE**

Our objective was to assess the internal controls that OHS has in place over the competitive grant-award process used to award Recovery Act expansion funds to determine whether the controls have been suitably designed.

## **RESULTS OF REVIEW**

OHS's internal controls over the competitive grant-award 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.

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# 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 and 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.

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<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. 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 awards discretionary grants to eligible Head Start grantees. OHS has the authority to determine the recipients of the grants and the amounts awarded.

### **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 the Head Start programs,
- fund one-time program quality improvements for existing Head Start grantees,
- partially fund a 4.9-percent cost-of-living increase for employees of existing grantees,
- increase the training and technical assistance funds available to new and existing Head Start grantees,

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<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 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.

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

### **Objective**

Our objective was to assess the internal controls that OHS has in place over the competitive grant-award process used to award Recovery Act expansion funds to determine whether the controls have been suitably designed.

### **Scope**

We assessed OHS's internal controls over the competitive grant-award process used to award Recovery Act funds for program expansion. 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 OHS's internal controls over the grant-award process used to award Recovery Act funds, individually or in the aggregate.

We performed fieldwork at OHS offices in Washington, DC, 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 competitive grant-award process for two grants 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 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 competitive grant-award 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 all funding opportunity announcements (FOA) using the Program Announcement Template System (PATS), consistent with guidance in ACF's Program Announcements Processing Guide. PATS ensures that all announcements follow

the Federal standards for program announcements, as well as all HHS and ACF grant policies.

- Before the FOA is posted, staff from all involved ACF offices review and approve the grant eligibility requirements spelled out in the FOA for accuracy and compliance with Division of Grants Policy administration policies and provisions, as outlined in ACF's Program Announcement Processing Guide. Reviewers include staff in the Office of Grants Policy, the Office of Legislative Affairs and Budget, the Office of the General Counsel, the Office of the Assistant Secretary, and the Office of Grants Management.
- FOAs for Recovery Act funding opportunities require additional reviews and approvals by the Office of Legislative Affairs and Budget and OMB.
- OHS prioritizes and approves competitive grant applications based on compliance with the Head Start Act, Head Start Performance Standards, and local need as shown through a community assessment, pursuant to the HHS Grants Policy Statement.

**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**

- OMB implementation guidance for the Recovery Act requires Federal agencies to provide information on the funding notifications made for all award types on [Grants.gov](http://Grants.gov) with a link to the agency's Web site.
- Authorized OHS staff posts FOAs, grant eligibility requirements, and Head Start program information on its Early Childhood Learning and Knowledge Center (ECLKC) Web site, [Grants.gov](http://Grants.gov), and [Recovery.gov](http://Recovery.gov). To encourage timely awarding of Recovery Act funds, OHS posts synopses of Recovery Act funding opportunities on [Grants.gov](http://Grants.gov) before posting the complete announcement to give potential applicants information as quickly as possible.
- ACF's Division of Grants Policy reviews and approves Recovery Act FOAs to ensure that they comply with Recovery Act, Division, and OMB requirements. OHS has posted webcasts to the ECLKC Web site that explain the Recovery Act application process more fully. OHS also has added sections covering the Early Head Start Expansion grants and instructions for filling out the different sections of the grant application package.

**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, the funding opportunity announcements, review panel materials, and the review support contract for OHS.

- A review panel assesses and scores all eligible applications for competitive Head Start awards.
- OHS's management approves the final grant recipients, taking into account the funds available for each competitive area, the need for services in the proposed area, the size of the proposed grant, the reasonableness of the budget, and the cost per child based on the services that the applicant proposes, as well as the application score.
- 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.
- For existing grantees, OHS considers the grantee's performance and reviews of internal controls 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 applicants who have never received a Federal Head Start grant award before OHS approves the awards.
- OHS 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 before OHS approves grant awards.

**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 at 45 CFR 1302.10, OHS selects Head Start applicants based on the applicants' 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 programs, as well as the proposed programs' adherence to the Head Start Performance Standards. Additionally, OHS reviews the need for Head Start services in the communities served by the applicants.

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

- OHS requires that all applications be submitted either electronically through [Grants.gov](https://www.grants.gov) or by mail. [Grants.gov](https://www.grants.gov) checks to ensure that no viruses are attached to the application.
- To expedite the grant application review process, OHS has developed uniform grant application forms, instructions for supplemental application information, and preprinted forms and scoring sheets.
- ACF's Review Support Contract contains reimbursement rates to minimize cost overruns. For example, the Review Support Contract specifies the stipend amounts for application panel reviewers. The contractor is also instructed to minimize travel costs by securing the most economical travel fares.

### **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 screens out ineligible applications at each step. The Grant Review Support Contractor performs the initial review to ensure that applications are complete and timely. OHS staff re-review any late or incomplete applications identified by the contractor before they are excluded.

- Grant reviewers, who have experience in early childhood education, education finances, or Head Start, review and score each application independently based on Head Start eligibility and other relevant requirements.

**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 monitors the total Head Start grant awards made each period 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 Grants 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.
- Because all grant applications are received and processed by OHS’s Grant Review Support Contractor, OHS requires the contractor’s offices to meet physical security requirements to prevent unauthorized access. These requirements are outlined in the contract.

- 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**

- Grant reviewers receive training on securing personally identifying information and safeguarding proprietary information before the review process begins.
- Grant reviewers receive only those applications that they will review. Before receiving payment, the grant reviewers must return all application materials and have their laptops scanned for and cleansed of applicants' 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**

- The contractor reviews applications for errors that would immediately disqualify an applicant, such as late applications, applications for funding in excess of the ceiling for individual awards, and incomplete applications. The contractor separates these applications for a second review by OHS management before the applications are disqualified.
- OHS's regional staff work with applicants selected for funding to correct any remaining errors during the final budget negotiation phase.

**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 and grant selection process, segregation of duties ensures that no single person prepares the FOA, reviews the application, and selects the fundable applications. These controls reduce opportunities for an individual to cause or conceal errors. For example, OHS staff prepare and post the FOA after extensive review from OHS and ACF management. The contractor and OHS management screen ineligible applications before they are disqualified. Grant reviewers review and score applications but do not select the fundable applications. OHS management selects the fundable applications based on the grant reviewers scores and comments and on how services will be distributed across regions and States.