



January 26, 2012

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

**FROM:** /Kay L. Daly/  
Assistant Inspector General for Audit Services

**SUBJECT:** Results of Limited Scope Review at Norwalk Economic Opportunity Now, Inc.  
(A-01-11-02505)

Attached, for your information, is an advance copy of our final report to determine whether costs claimed by Norwalk Economic Opportunity Now, Inc. (NEON) were allowable, allocable, reasonable, and adequately documented under the terms of the Head Start and Recovery Act grants and applicable Federal regulations. We will issue this report to NEON within 5 business days. This review was part of a series of reviews planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act.

If you have any questions or comments about this report, please do not hesitate to call me at (202) 619-1157 or through email at [Kay.Daly@oig.hhs.gov](mailto:Kay.Daly@oig.hhs.gov), or your staff may contact Michael J. Armstrong, Regional Inspector General for Audit Services, at (617) 565-2689 or through email at [Michael.Armstrong@oig.hhs.gov](mailto:Michael.Armstrong@oig.hhs.gov). Please refer to report number A-01-11-02505.

Attachment

Office of Audit Services  
Region I  
Room 2425  
Boston, MA 02203

January 30, 2012

Report Number: A-01-11-02505

Mr. Gregory D. Burnett, Sr.  
Chairman, Board of Directors  
Norwalk Economic Opportunity Now, Inc.  
98 South Main Street  
Norwalk, CT 06854

Dear Mr. Burnett:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Results of Limited Scope Review at Norwalk Economic Opportunity Now, Inc.* We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

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 call me, or contact George Nedder, Audit Manager, at (617) 565-3463 or through email at [George.Nedder@oig.hhs.gov](mailto:George.Nedder@oig.hhs.gov). Please refer to report number A-01-11-02505 in all correspondence.

Sincerely,

/Michael J. Armstrong/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Louise Eldridge  
Program Manager  
Office of Head Start  
Region 1  
JFK Federal Bldg.  
Room 2000  
Boston, MA 02204

**cc:**

Ms. Ann Linehan  
Deputy Director  
Office of Head Start  
Portals Building, 8<sup>th</sup> Floor  
1250 Maryland Avenue, SW  
Washington DC 20024

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE  
REVIEW AT NORWALK ECONOMIC  
OPPORTUNITY NOW, INC.**



Daniel R. Levinson  
Inspector General

January 2012  
A-01-11-02505

# *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.

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## *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*

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**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**

#### **Head Start Program**

Pursuant to the Improving Head Start for School Readiness Act of 2007, P.L. No. 110-134 (Head Start Act), Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social, and other services available to children and families. Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF) administers the Head Start program.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, ACF received \$1 billion for Head Start, including nearly \$354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation, and enhance transportation services. ACF combined Recovery Act funds with a fiscal year (FY) 2009 Head Start appropriation to provide an additional \$356 million to award all Head Start grantees a nearly 5 percent cost-of-living increase and bolster training and technical assistance activities.

#### **Norwalk Economic Opportunity Now, Inc.**

Norwalk Economic Opportunity Now, Inc. (NEON), a not-for-profit community action agency, provides social programs and services to economically vulnerable populations in and around Norwalk, Connecticut. NEON's principal programs include employment services and job training, early childhood development and day care, housing, and supplementary assistance for food and energy assistance. NEON is funded primarily through Federal, State, and local government grants. For the period January 1, 2009, through December 31, 2011, ACF awarded \$4,757,151 to NEON: \$4,626,834 in Head Start funds to provide services to 275 children and \$130,317 in Recovery Act Head Start funds for cost-of-living adjustments (COLAs) and Head Start quality improvements.

This review is part of a series of reviews planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act.

### **OBJECTIVE**

Our objective was to determine whether costs claimed by NEON were allowable, allocable, reasonable, and adequately documented under the terms of the Head Start and Recovery Act grants and applicable Federal regulations.

## **SUMMARY OF FINDINGS**

Of the \$3,533,434 that we reviewed, we found that \$3,127,000 was allowable. However, NEON claimed costs of \$406,434 that were not allowable, allocable, reasonable, and adequately documented under the terms of the Head Start and Recovery Act grants and applicable Federal regulations, including claimed costs of:

- \$383,312 in indirect expenses to Federal Head Start grants without obtaining an approved indirect cost rate and
- \$23,122 in unallowable expenses to the Recovery Act Head Start quality improvement grant.

These deficiencies occurred because NEON did not have adequate policies and procedures in place to ensure that it charged only allowable, allocable, reasonable, and adequately documented expenses to the Federal Head Start and Recovery Act Head Start grants.

## **RECOMMENDATIONS**

We recommend that NEON:

- refund \$383,312 in unallowable indirect expenses charged to the 2009, 2010, and 2011 Federal Head Start grants (\$150,617 for grant year (GY) 2009; \$167,840 for GY 2010; and \$65,215 for GY2011);
- refund \$23,122 in unallowable expenses charged to the Recovery Act Head Start quality improvement grant;
- obtain training and technical assistance related to Federal Uniform Administrative Requirements, Cost Principles, and Head Start regulations; and
- adopt policies and procedures to ensure that only reasonable, allowable, and allocable expenses are charged to the Federal Head Start grant.

## **NORWALK ECONOMIC OPPORTUNITY NOW, INC. COMMENTS**

In written comments on our draft report, NEON states that it accepts our findings and recommendations and is taking appropriate action.

NEON's comments are included in their entirety as Appendix B.

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A: NORWALK ECONOMIC OPPORTUNITY NOW, INC., INDIRECT EXPENSES  
CHARGED BY GRANT YEAR

B: NORWALK ECONOMIC OPPORTUNITY NOW, INC., COMMENTS

## INTRODUCTION

### BACKGROUND

#### Head Start Program

Pursuant to the Improving Head Start for School Readiness Act of 2007, P.L. No. 110-134 (Head Start Act), Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social, and other services available to children and families. Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF) administers the Head Start program.

The Head Start program provides grants to local public and private agencies to provide economically disadvantaged children and families with comprehensive child development services with a special focus on helping preschoolers develop early reading and math skills. Head Start programs engage parents in their children's learning and emphasize parental involvement in the administration of local Head Start programs.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, ACF received \$1 billion for Head Start, including nearly \$354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation, and enhance transportation services. ACF combined Recovery Act funds with a fiscal year (FY) 2009 Head Start appropriation to provide an additional \$356 million to award all Head Start grantees a nearly 5 percent cost-of-living increase and bolster training and technical assistance activities.

Federal regulations (45 CFR § 74.21(b)) require that each grantee's financial management system provides (1) accurate, current, and complete disclosure of the financial results of each program; (2) records that adequately identify the source and application of Federal funds; (3) effective control over and accountability for all funds, property, and other assets to ensure they are used solely for authorized purposes; (4) procedures for determining the reasonableness, allocability, and allowability of costs; and (5) accounting records that are supported by source documentation.

Additionally, pursuant to 2 CFR § 230, App. A, 2, costs must be reasonable for the performance of the award and conform to any limitations set forth in the award. Costs shared by multiple programs are allocable to an award in accordance with the relative benefits received, pursuant to 2 CFR § 230, App. A, 4.

#### **Norwalk Economic Opportunity Now, Inc.**

Norwalk Economic Opportunity Now, Inc. (NEON), a not-for-profit community action agency, provides social programs and services to economically vulnerable populations in and around Norwalk, Connecticut. NEON's principal programs include employment services and job training, early childhood development and day care, housing, and supplementary assistance for

food and energy assistance. NEON is funded primarily through Federal, State, and local government grants. For the period January 1, 2009, through December 31, 2011, ACF awarded \$4,757,151 to NEON, including \$4,626,834 in Head Start funds to provide services to 275 children and \$130,317 in Recovery Act Head Start funds for cost-of-living adjustments (COLAs) and Head Start quality improvements.

This review is part of a series of reviews planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act.

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

### **Objective**

Our objective was to determine whether costs claimed by NEON were allowable, allocable, reasonable, and adequately documented under the terms of the Head Start and Recovery Act grants and applicable Federal regulations.

### **Scope**

We reviewed \$3,533,434 of the \$4,757,151 of Head Start costs claimed, including \$130,317 in Recovery Act funds, that NEON received from January 1, 2009, through March 31, 2011. We did not perform an overall assessment of NEON's internal control structure. Therefore, we reviewed only the internal controls that pertained directly to our objective.

We performed fieldwork at NEON's central office in Norwalk, CT, from April 28, 2011, to October 21, 2011.

### **Methodology**

To accomplish our objective, we:

- reviewed Federal laws, regulations, and policy information for Federal grant awards and the Head Start program;
- reviewed and analyzed NEON's audited financial statements for FY 2007, 2008, and 2009;
- reviewed NEON's bylaws, board of director meeting minutes, financial policies and procedures, and human resource policies and procedures;
- reviewed NEON's methods and schedules for budgeting and recording Head Start expenses, indirect costs, and non-Federal matching funds;
- reviewed NEON's chart of accounts and analyzed financial reports produced by NEON's accounting system; and

- interviewed NEON's senior management and financial staff.

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

## **FINDINGS AND RECOMMENDATIONS**

Of the \$3,533,434 of Head Start costs claimed that we reviewed, we found that \$3,127,000 were allowable. However, NEON claimed costs of \$406,434 that were not allowable, allocable, reasonable, and adequately documented under the terms of the Head Start and Recovery Act grants and applicable Federal regulations, including claimed costs of:

- \$383,312 in indirect expenses to Federal Head Start grants without obtaining an approved indirect cost rate and
- \$23,122 in unallowable expenses to the Recovery Act Head Start quality improvement grant.

These deficiencies occurred because NEON did not have adequate policies and procedures in place to ensure that it charged only allowable, allocable, reasonable, and adequately documented expenses to the Federal Head Start and Recovery Act Head Start grants.

## **UNALLOWABLE FEDERAL HEAD START COSTS CLAIMED**

### **Indirect Costs Claimed**

Federal regulations define direct costs as those that can be identified specifically with a particular award, project, or service of an organization (2 CFR § 230, App. A, B.1) and indirect costs as those that have been incurred for common or joint objectives and cannot be identified readily with a particular final cost objective (2 CFR § 230, App. A, C.1).

Pursuant to HHS Grants Policy Statement, page I-23, HHS will not reimburse indirect costs unless the recipient has an indirect cost rate covering the applicable activities and period. Indirect cost rates are negotiated by HHS's Division of Cost Allocation or another Federal agency with cognizance for indirect cost rate negotiation.

NEON used an indirect methodology that was not approved by a Federal agency to allocate administrative expenses, including unallowable costs, to its Federal Head Start grants (see the Appendix A). In its grant applications, NEON included only direct expenses and did not obtain an approved indirect cost rate. However, NEON did not charge administrative compensation and expenses directly to the Federal Head Start grant as it had proposed in its grant applications. As a result, NEON claimed \$383,312 in unallowable indirect costs.

## **Recovery Act Head Start Quality Improvement Funds**

Under Title VIII of the Recovery Act, ACF received \$1 billion for “carrying out activities under the Head Start Act.” In its instructions to grantees, ACF stated that “any proposed use of (Recovery Act) quality improvement funding must be consistent with the provisions of Section 640(a)(5) of the Head Start Act” (ACF-PI-HS-09-06) .

Pursuant to Section 640(a)(5) of the Head Start Act, quality improvement funds shall be used to improve the compensation (including benefits) of Head Start personnel and fund specified activities, such as providing services for immigrant and homeless children, improving Head Start facilities, or employing additional qualified classroom staff.

NEON received \$130,317 in Recovery Act Head Start funds for COLAs and Head Start quality improvements. However, NEON claimed Recovery Act Head Start funds on expenses that did not meet the quality improvement requirements. Specifically, NEON claimed:

- \$10,598 for tuition for non-Head Start employees;
- \$7,830 for routine nursing consultations; and
- \$4,694 for equipment that was unused, missing, or used by non-Head Start classes.

As a result, NEON claimed \$23,122 in unallowable quality improvement costs.

## **CAUSE OF DEFICIENCIES**

These deficiencies occurred because NEON did not have adequate policies and procedures in place to ensure that only allowable, allocable, reasonable, and adequately documented expenses were charged to the Federal Head Start and Recovery Act Head Start grants.

## **RECOMMENDATIONS**

We recommend that NEON:

- refund \$383,312 in unallowable indirect expenses charged to the 2009, 2010, and 2011 Federal Head Start grants (\$150,617 for grant year (GY) 2009; \$167,840 for GY 2010; and \$65,215 for GY2011);
- refund \$23,122 in unallowable expenses charged to the Recovery Act Head Start quality improvement grant;
- obtain training and technical assistance related to Federal Uniform Administrative Requirements, Cost Principles, and Head Start regulations; and
- adopt policies and procedures to ensure that only reasonable, allowable, and allocable expenses are charged to the Federal Head Start grant.

## **OTHER MATTERS**

### **Non-Federal Share**

Head Start Performance Standards found at 45 CFR § 1301.20 state that Federal Head Start financial assistance shall not exceed 80 percent of the total costs of the program, and that the non-Federal share provided by the grantee will not be required to exceed 20 percent.

Federal regulations specify that all cost sharing or matching contributions, including cash and third party in-kind, must be necessary and reasonable for proper and efficient accomplishment of project or program objectives and allowable under the applicable cost principles (45 CFR § 74.23(a)(3) and (4)).

In GYs 2009 through 2011, NEON received on average \$1.25 million annually from the State of Connecticut and the city of Norwalk for its Head Start programs. These amounts exceeded NEON's share requirements for non-Federal Head Start funds, which were \$683,686 (GY 2009); \$638,521 (GY 2010); and \$636,022 (GY 2011).

While it appears that NEON met its non-Federal share requirements, we were unable to verify this based on NEON's record keeping. NEON used a portion of the funds that it received from the State and the city to pay for expenses that are unallowable under Federal Head Start regulations. For example, it used State and city Head Start funds to pay for indirect, legal, and contractual expenses incurred by other programs. We were unable to verify that NEON met its non-Federal share requirements because NEON's accounting records did not readily identify allowable and unallowable expenses charged to its non-Federal funds.

### **NORWALK ECONOMIC OPPORTUNITY, INC., COMMENTS**

In written comments on our draft report, NEON states that it accepts our findings and recommendations and is taking appropriate action.

NEON's comments are included in their entirety as Appendix B.

# **APPENDIXES**

**APPENDIX A: NORWALK ECONOMIC OPPORTUNITY NOW, INC.,  
INDIRECT EXPENSES CHARGED BY GRANT YEAR**

<b>Grant Year</b>	<b>Amount</b>
2009	\$150,617
2010	\$167,840
2011 (partial)	\$65,215



# N.E.O.N.

**Norwalk Economic Opportunity Now, Inc.**

98 South Main Street  
Norwalk, CT 06854

January 19, 2012

Mr. Michael J. Armstrong  
Regional Inspector General for Audit Services  
Department of Health & Human Services  
Office of Inspector General  
Office of Audit Services, Region I  
John F. Kennedy Federal Building  
Room 2425  
Boston, MA 02203

Dear Mr. Armstrong:

With respect to the findings of the Office of Inspector General (OIG) contained in its *Results of Limited Scope Review at Norwalk Economic Opportunity Now, Inc.* and dated January 2012, we appreciate the time that has been devoted to our organization by the OIG in conducting this review.

We accept and fully understand the recommendations and findings and we have, and are, taking appropriate action.

Respectfully submitted,

Gregory D. Burnett, Sr.  
Chairman, NEON Board of Directors