



May 26, 2010

TO: Carmen Nazario
Assistant Secretary for Children and Families
Administration for Children and Families

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

SUBJECT: Administration for Children and Families Child Care Bureau—Internal Control
Review of the Process for Awarding American Recovery and Reinvestment Act
Funds (A-02-09-02010)

The attached final report provides the results of our review of internal controls over the process for awarding American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), funds at the Administration for Children and Families (ACF) Child Care Bureau. This review was part of the Office of Inspector General'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 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.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. All Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

Our objective was to assess the internal controls the Administration for Children and Families Child Care Bureau has in place for awarding grants under the Recovery Act and to determine whether the controls have been suitably designed.

The internal controls for awarding Recovery Act funds to grantees, as described by management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were complied with satisfactorily

and applied as designed. However, 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 aspects of the ACF Child Care Bureau's internal controls for awarding Recovery Act funds, individually or in the aggregate.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (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. Please refer to report number A-02-09-02010 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ADMINISTRATION FOR CHILDREN AND
FAMILIES CHILD CARE BUREAU—
INTERNAL CONTROL REVIEW OF
THE PROCESS FOR AWARDING
AMERICAN RECOVERY AND
REINVESTMENT ACT FUNDS**



Daniel R. Levinson
Inspector General

May 2010
A-02-09-02010

Office of Inspector General

<http://oig.hhs.gov>

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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 Department of Health and 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.

Administration for Children and Families Child Care Bureau

The Recovery Act provides \$2 billion in supplemental discretionary funding to the Child Care and Development Fund (CCDF), which is administered by the Administration for Children and Families (ACF), Office of Family Assistance's Child Care Bureau. The funds are intended to allow States to support child care services for more families whose children require care while their parents are working, seeking employment, or receiving job training or education. The funds, which will be awarded on a formula basis to States, territories, and tribes, will be used to provide vouchers to families for child care or to provide access to care through contracts with child care centers. In addition, a portion of the Recovery Act funds must be used to enhance overall child care quality and availability.

OBJECTIVE

Our objective was to assess the internal controls the Child Care Bureau has in place for awarding grants under the Recovery Act and to determine whether the controls have been suitably designed.

SUMMARY OF RESULTS

The internal controls over the grant award process used to award Recovery Act funds, as described by the Child Care Bureau management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed.

This report is intended to provide a sufficient understanding of the Child Care Bureau's grant process for awarding Recovery Act funds to grantees as it pertains to internal control objectives in the following internal control 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, completeness, and validity: 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; and
- 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,¹ 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 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 Child Care Bureau

The Recovery Act provided \$2 billion in supplemental discretionary funding to the Child Care and Development Fund (CCDF), which is administered by the Administration for Children and Families (ACF), Office of Family Assistance's Child Care Bureau. The funds are intended to allow States to support child care services for more families whose children require care while their parents are working, seeking employment, or receiving job training or education. The

¹ Accessed at <http://www.hhs.gov/recovery/reports/index.html> on October 29, 2009.

funds, which will be awarded on a formula basis to States, territories, and tribes, will be used to provide vouchers to families for child care or to provide access to care through contracts with child care centers. In addition, a portion of the Recovery Act funds must be used to enhance overall child care quality and availability.

CCDF grants funds are awarded to and administered by a State, territory, or tribe's lead agency.² On a biennial basis, grantees must submit a State plan to the Child Care Bureau for approval. The State plan must include the goals that the grantee hopes to achieve and describe the processes and procedures it will use to administer the program. The Child Care Bureau awards block grant funds allotted to States and territories based on a formula that consists of three factors: (1) population of children under age 5, (2) number of children who receive free or reduced price school lunches under the National School Lunch Act, and (3) per capita income. The formula used to allocate funds to tribes includes a fourth factor—the number of children under age 13.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess the internal controls the Child Care Bureau has in place for awarding grants funded under the Recovery Act and to determine whether the controls have been suitably designed.

Scope

We assessed the Child Care Bureau's internal controls over the grant award process used to award Recovery Act funds to support child care services for more families whose children require care while they are working, seeking employment or receiving job training or education. Our assessment was limited to determining whether existing internal controls adequately achieved the control objectives for: (1) authorization; (2) accuracy, completeness, and validity; (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 ACF's internal controls over the grant award process used to award Recovery Act funds, individually or in the aggregate.

We performed fieldwork at ACF's offices in Washington, D.C., from May through July 2009.

² The chief executive of a state or territory has the responsibility to designate a lead agency that will have the responsibility and authority to administer and/or implement child care programs, directly or indirectly, through other local agencies, whether public, private, non-profit, or for profit.

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 the Child Care Bureau's internal control environment, we:

- reviewed relevant Federal laws and regulations, including Recovery Act guidance issued by the Office of Management and Budget, that the Child Care Bureau must follow for awarding grants;
- reviewed the Child Care Bureau's organizational structure, including segregations of functional responsibilities, policy statements, operating manuals, and personnel policies;
- interviewed Child Care Bureau management as well as operations, administrative and other personnel responsible for developing, assuring adherence to and applying internal controls; and
- reviewed the grant award process for three 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 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.

RESULTS OF REVIEW

The internal controls over the grant award process used to award Recovery Act funds, as described by the Child Care Bureau management, are suitably designed to provide reasonable assurance that the specified internal controls objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed.

This report provides a sufficient understanding of the Child Care Bureau's grant process for awarding Recovery Act funds to grantees as it pertains to internal control objectives in the following internal control 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, completeness, and validity: 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; and
- 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

- ACF and HHS, Office of General Counsel management approve eligibility requirements used in evaluating grant eligibility.
- ACF and Office of General Counsel management review and approve grant “pre-prints”³ prior to their being made available to the States, territories, and tribes.
- ACF management authorizes specific personnel to approve grant applications. Management designates which personnel can review and approve grant applications and provides training for these employees prior to the beginning of the grant cycle.

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 implementing guidance for the Recovery Act requires agencies to provide information on the funding notifications made for all award types on <http://www.recovery.gov> with a link to the agency’s Web site.
- The Child Care Bureau issued a program instruction, dated April 9, 2009, notifying lead agencies that additional funding was available for fiscal year 2009 under the Recovery Act. A separate Notice of Grant Award to State, Territorial and Tribal Lead Agencies included the total amount of supplemental funds awarded under the Recovery Act.

³The “pre-print” is the grant application (ACF-118) completed by States, territories, and tribes to be considered as a CCDF grantee.

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

- The Child Care Bureau’s grant application processing procedures are defined and communicated in approved formal procedures manuals.
- The Child Care Bureau produces grants cycle memos, program instructions, and program guidance to grantees.
- Child Care Bureau management approves all changes to program procedures.
- Personnel authorized to approve grant applications are required to complete coursework to become certified as grants officers. In addition, the Child Care Bureau conducts bi-annual State plan training for all of its central and regional office staff involved in the grant application process.
- The Child Care Bureau does not have a competitive process for awarding mandatory grants. Instead, applicants submit a proposed State plan covering a specific period and agree to follow all Federal rules and regulations.

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

- Child Care Bureau grantees are required to meet the standards and requirements for financial management systems set forth or referenced in 45 CFR §§ 74.21 or 92.20, as applicable. Requirements for grantees’ financial and administrative systems are included in the ACF Grants Policy Statement.

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

- Upon approval of a State plan, ACF issues a Notice of Grant Award to the grantee. In addition, the grantee is also provided with a copy of the terms and conditions of the grant. This document mandates and specifies the manner in which funds are to be used and the manner in which the grantee is to conduct business.

ACCURACY, COMPLETENESS, AND VALIDITY

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

- ACF requires that individuals involved in the grant award process be sufficiently qualified and receive adequate training.

- ACF uses a predefined template system to ensure that all program announcements follow OMB standards as well as all HHS and ACF policies.

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

- Grant applicants may submit either electronic or hard copy version of the Form ACF-118, Biennial Pre-Print. ACF uses several systems to track and fund grants, including Grants Administration, Tracking and Evaluation System (GATES), the Unified Financial Management System, and the Payment Management System.

Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That the Agency Has Mechanisms in Place to Timely Award Grant and Contract Funds

- The Child Care Bureau released a program instruction, dated April 27, 2009, detailing the deadlines and effective dates for fiscal year 2009 State Plans. Pursuant to the program instruction, lead agencies must have submitted their plans to the Child Care Bureau review no later than July 1, 2009. Upon approval by the Child Care Bureau, plans became effective October 1, 2009.
- The Child Care Bureau limited CCDF funds distributed as a result of Recovery Act to existing grantees previously approved for funding under fiscal year 2009 appropriations.

Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That Only Those Grant Request That Meet Eligibility Requirements Should Be Approved

- ACF provides guidance to personnel involved in the State Plan review at the beginning of every grant cycle. Only applications that are fully complete and contain the necessary detail are approved for funding.
- Grant applications are required to be resubmitted on a biennial basis. Each lead agency planning to substantially change its program is required to submit an amendment to its State plan for approval.

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

- Grantees expending more than \$500,000 in a fiscal year are required to obtain audits of their organization's operations annually from independent public accountants in accordance with OMB Circular A-133 and 45 CFR § 74.26.
- Grants officers and Child Care Bureau program officials use reports, correspondence from grantees, audit reports, site visits, and other available information to monitor

costs and performance results, identify potential problems, and identify areas where technical assistance or enforcement action may be necessary.

PHYSICAL SAFEGUARDS AND SECURITY

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

- Physical access to ACF facilities is electronically monitored. Access to the various computer systems used to track and manage grants are password protected. Supervisors determine the needs of personnel and restrict access to the various levels of information by use of permissions. External users do not have access to GATES.

ERROR HANDLING

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That the Administration for Children and Families Accurately and Promptly Classifies, Summarizes, and Reports Adjustments to Grant Application Information and Records

- Multiple levels of ACF personnel approve and allocate grants—a process intended to reduce the chance of error.

SEGREGATION OF DUTIES

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

- The Child Care Bureau's process for reviewing, approving, allocating, and funding grants spans several offices, and requires approval from multiple management level personnel.
- Grants officers serve as the reception and distribution point for prior approval requests, progress reports, and other reports required by the terms and conditions of the Notice of Grant Award.
- Program officials are required to evaluate State Plan submissions while grants officers determine compliance with policy, regulations, and guidelines.