



April 7, 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: Results of Limited Scope Review at Brooklyn Child and Family Services, Inc.'s
Head Start and Early Head Start Programs (A-02-09-02021)

The attached final report provides the results of our limited scope review of Brooklyn Child and Family Services, Inc.'s (BCAFS's) capacity to manage and account for Federal funds and operate its Head Start program in accordance with Federal regulations. This review was requested by the Administration for Children and Families (ACF), Office of Head Start as part of its overall assessment of Head Start grantees that have applied for additional funding under the Recovery Act.

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.

BCAFS, a non-profit agency, operates both Head Start and Early Head Start programs that provide educational, health, and social services to low-income families with children from the ages of 12 weeks to 5 years in Brooklyn, New York. During grant year 2009 (February 1, 2008, through January 31, 2009), ACF directly provided Head Start and Early Head Start funds to BCAFSS totaling \$2,555,751. For the purpose of reporting our findings and recommendation, we will use the term "Head Start funds" to represent both the Head Start and Early Head Start programs.

The objectives of our limited scope review were to determine whether: (1) BCAFS is fiscally viable, (2) BCAFS's financial management system adequately managed and accounted for Federal funds, (3) BCAFS fiscal personnel are bonded, and (4) BCAFS met its funded enrollment level.

Based on its current financial condition, BCAFS cannot ensure the continuing viability of the organization as a going concern unless it receives additional funding. Also, BCAFS's financial management system does not adequately manage and account for Federal funds. As a result, Federal Head Start funds were used to pay for non-Head Start expenditures, accounting records were not properly maintained and reconciled, internal financial reporting was deficient, and the GY 2009 financial status report included inaccurate data. In addition, BCAFS did not maintain its funded enrollment level. Lastly, BCAFS fiscal personnel are bonded.

In written comments on our draft report, BCAFS stated that its Board of Directors and management consider its financial situation "very serious and are taking very drastic measures to remedy the situation," and indicated steps it has taken or plans to take to address the subject. BCAFS disagreed with some of our findings concerning its financial management system. However, it agreed with some of our findings concerning its accounting methods and indicated steps it has taken to adequately account for Federal funds. In addition, BCAFS provided documentation related to its bonding insurance policy. After reviewing BCAFS's documentation related to its bonding insurance policy, we revised our finding accordingly.

In determining whether BCAFS should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing BCAFS's capacity to manage and account for Federal funds.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that 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>.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. 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-02-09-02021 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT BROOKLYN CHILD
AND FAMILY SERVICES, INC.'S
HEAD START AND
EARLY HEAD START PROGRAMS**



Daniel R. Levinson
Inspector General

April 2010
A-02-09-02021

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

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, 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 to enrolled children and families. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF) administers the Head Start and Early Head Start programs. Both programs provide grants to local public and private non-profit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received \$1 billion, 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. Also, under the Act, ACF received \$33 million for monitoring of newly-funded Early Head Start grantees and \$110 million for training and technical assistance.

Brooklyn Child and Family Services, Inc. (BCAFS), a non-profit agency, operates both Head Start and Early Head Start programs that provide educational, health, and social services to low-income families with children from the ages of 12 weeks to 5 years in Brooklyn, New York. BCAFSS also operates food, transitional housing, and youth and family service programs.

BCAFSS is funded primarily through Federal and local government grants. During grant year (GY) 2009 (February 1, 2008, through January 31, 2009), ACF directly provided Head Start and Early Head Start funds to BCAFSS totaling \$2,555,751. For the purpose of reporting our findings and recommendation, we will use the term “Head Start funds” to represent both the Head Start and Early Head Start programs. In addition, BCAFSS received Head Start and Early Head Start Recovery Act grant funding for the project period July 1, 2009, through September 30, 2010, totaling \$142,294 for cost-of-living increases and quality improvement.

OBJECTIVES

The objectives of our limited scope review were to determine whether: (1) BCAFSS is fiscally viable, (2) BCAFSS’s financial management system adequately managed and accounted for Federal funds, (3) BCAFSS fiscal personnel are bonded, and (4) BCAFSS met its funded enrollment level.

SUMMARY OF FINDINGS

Based on its current financial condition, BCAFSS cannot ensure the continuing viability of the organization as a going concern unless it receives additional funding. Also, BCAFSS’s financial management system does not adequately manage and account for Federal funds. As a result, Federal Head Start funds were used to pay for non-Head Start expenditures, accounting records

were not properly maintained and reconciled, internal financial reporting was deficient, and the GY 2009 financial status report included inaccurate data. In addition, BCAFS did not maintain its funded enrollment level. Lastly, BCAFS fiscal personnel are bonded.

RECOMMENDATION

In determining whether BCAFS should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing BCAFS's financial condition.

BROOKLYN CHILD AND FAMILY SERVICES, INC., COMMENTS

In written comments on our draft report, BCAFS stated that its Board of Directors and management consider its financial situation "very serious and are taking very drastic measures to remedy the situation," and indicated steps it has taken or plans to take to address the subject. BCAFS disagreed with some of our findings concerning its financial management system. However, it agreed with some of our findings concerning its accounting methods and indicated steps it has taken to adequately account for Federal funds. In addition, BCAFS provided documentation related to its bonding insurance policy. BCAFS's comments are included as the appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing BCAFS's documentation related to its bonding insurance policy, we revised our finding accordingly. With the exception of these revisions, we believe our findings and recommendation are valid.

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BROOKLYN CHILD AND FAMILY SERVICES, INC., COMMENTS

INTRODUCTION

BACKGROUND

Head Start and Early Head Start Programs

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, 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 to enrolled children and families. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF) administers the Head Start and Early Head Start programs.

The Head Start and Early Head Start programs provide grants to local public and private non-profit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received \$1 billion, 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. Also, under the Act, ACF received \$33 million for monitoring of newly-funded Early Head Start grantees and \$110 million for training and technical assistance.

Brooklyn Child and Family Service, Inc.

Brooklyn Child and Family Services, Inc. (BCAFS), a non-profit agency, operates both Head Start and Early Head Start programs that provides educational, health, and social services to low-income families with children from the ages of 12 weeks to 5 years in Brooklyn, New York. BCAFSS also operates food, transitional housing, and youth and family service programs.

BCAFS is funded primarily through Federal and local government grants. During grant year (GY) 2009 (February 1, 2008, through January 31, 2009), ACF directly provided Head Start and Early Head Start funds to BCAFSS totaling \$2,555,751. For the purpose of reporting our findings and recommendation, we will use the term “Head Start funds” to represent both the Head Start and Early Head Start programs.¹ In addition, BCAFSS’s Head Start and Early Head Start programs received Recovery Act grant funding for the project period July 1, 2009, through September 30, 2010, totaling \$142,294 (\$46,826 for Head Start and \$95,468 for Early Head Start) for cost-of-living increases and quality improvement.

Requirements for Federal Grantees

Pursuant to 45 CFR § 74.21, grantees must maintain financial management systems that contain written procedures for determining the reasonableness, allocability, and allowability of costs. Also, grantees must maintain accounting records that are supported by source documentation and

¹ The dollar amounts identified in our findings included both Head Start and Early Head Start funding.

maintain financial systems that provide for accurate and complete reporting of grant-related financial data. Grantees are also required to compare outlays with budget amounts for each award and may use grant funds only for authorized purposes. In addition, pursuant to 45 CFR § 1301.11, Head Start agencies shall make arrangements for bonding officials and employees authorized to disburse program funds. Pursuant to 45 CFR § 1305.7(b), a Head Start grantee must maintain its funded enrollment level.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our limited scope review were to determine whether: (1) BCAFS is fiscally viable, (2) BCAFS's financial management system adequately managed and accounted for Federal funds, (3) BCAFS fiscal personnel are bonded, and (4) BCAFS met its funded enrollment level.

Scope

This review was performed based upon a limited scope request from ACF, dated June 19, 2009. Therefore, we did not perform an overall assessment of BCAFS' internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was February 1, 2008, through January 31, 2009 (GY 2009).

We performed our fieldwork at BCAFS's administrative office in Brooklyn, New York, during July 2009.

Methodology

To accomplish our objectives, we;

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed BCAFS's fiscal policies and procedures related to its financial management system and preparation of financial reports;
- reviewed minutes of BCAFS's Board of Directors meetings;
- obtained Federal and local government grant award documentation to determine BCAFS's Federal funding;
- reviewed BCAFS's financial statements for fiscal years 2006 through 2008;²

² We reviewed BCAFS's audited financial statements for fiscal years (FYs) 2006, 2007, and 2008, which included OMB Circular A-133 Single Audit Reports. BCAFS's fiscal year starts on October 1 and ends on September 30.

- reviewed BCAFS’s expense accounts, monthly income statements, bank statements, and SF-269, Financial Status Reports, submitted to ACF;
- performed a liquidity analysis, and a ratio and trend analysis of BCAFS’s net assets;
- reviewed BCAFS’s cost allocation methodology and functional allocation schedules;
- reviewed BCAFS’s payroll records, including payroll registers, timesheets, and personnel activity reports;
- reviewed BCAFS’s development and administrative costs and non-Federal matching contributions; and
- reviewed BCAFS’s Head Start and Early Head Start enrollment levels.

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 objectives.

FINDINGS AND RECOMMENDATIONS

Based on its current financial condition, BCAFS cannot ensure the continuing viability of the organization as a going concern unless it receives additional funding. Also, BCAFS’s financial management system does not adequately manage and account for Federal funds. As a result, Federal Head Start funds were used to pay for non-Head Start expenditures, accounting records were not properly maintained and reconciled, internal financial reporting was deficient, and the GY 2009 financial status report included inaccurate data. In addition, BCAFS did not maintain its funded enrollment level. Lastly, BCAFS fiscal personnel are bonded.

BROOKLYN CHILD AND FAMILY SERVICES, INC., IS NOT FINANCIALLY VIABLE

To determine whether BCAFS is financially viable, we performed a liquidity analysis, and a trend and ratio analysis of BCAFS’s finances for FY 2008.

Short Term Liquidity

We performed a liquidity analysis—the relationship of current assets to current liabilities—to determine BCAFS’s ability to pay its current obligations. Generally, for an organization to be considered fiscally sound, its current assets should be valued more than its current liabilities. Our analysis indicated that BCAFS’s current liabilities exceeded its current assets (the current assets-to-liabilities ratio was 0.92). In addition, BCAFS’s working capital—current assets (\$299,787) less current liabilities (\$326,187)—was negative (-\$26,400). Positive working

capital is a common measure of an organization's liquidity, efficiency, and overall health. Negative working capital shows the inverse.

Trend and Ratio Analysis of Net Assets

We performed a 3-year trend analysis of BCAFS's net assets. According to its financial statements, BCAFS's net assets decreased approximately 33 percent from FY 2006 through FY 2008. Specifically, BCAFS's net assets decreased \$381,212 during this period—from \$1,150,505 in FY 2006 to \$794,119 in FY 2007 (-\$356,386) to \$769, 293 in FY 2008 (-\$24,826).

We also performed a saving indicator analysis—a comparison of net assets to total expenditures—to measure BCAFS's ability to increase its unrestricted net assets and to assess if BCAFS is adding to or using up its net assets. Generally, if the ratio is greater than zero, the organization is accumulating savings (unrestricted reserves). However, if the ratio is less than zero, the organization is using existing savings to cover its operations. Based on BCAFS's decreased net assets (-\$24,826) and total expenditures (\$4,328,183), BCAFS's saving indicator is less than zero.

To ensure the continuing viability of the organization as a going concern, BCAFS must seek additional funding from the Federal government or other sources.

INADEQUATE FINANCIAL MANAGEMENT SYSTEM

Unallowable Costs

Unallowable Fund Transfer

BCAFS improperly used Head Start funds to pay for non-Head Start expenditures. Specifically, in January and February 2008, BCAFS transferred a total of \$13,000 from its Head Start bank account to another program account to pay expenditures incurred for its transitional housing program. BCAFS could not document that \$13,000 was repaid to the Head Start program.

Funds Used to Pay Prior Grant Year Expenditures

Pursuant to 45 CFR § 74.28, grant funds may only be used in the period for which the funds were awarded. Contrary to Federal regulations, BCAFS used \$26,445 in Head Start funds allocated for GY 2009 to pay for expenditures incurred in GY 2008.

Expenses Paid in Excess of Allocated Amount

Pursuant to OMB Circular A-122, Cost Principles for Non-Profit Organizations, App. A, § A.4.a (2) (2 CFR pt. 230, App. A, § A.4.a(2)), a cost is allocable to a Federal award if it benefits both the award and other work and can be distributed in reasonable proportion to the benefits received. Contrary to Federal regulations, BCAFS used \$129,912 of Head Start funds to pay salary costs in excess of the amounts allocated to the Head Start program.³ As detailed in the below table, BCAFS improperly used Head Start funds to pay eight staff positions.

Comparison of Salary Percentage Paid With Head Start Funds to Salary Percentage Allocated to the Head Start Program

Staff Position	Actual Drawdowns	Allocated to Head Start Program
Executive Director	88%	67%
Program Director	100%	67%
Senior Accountant	85%	62%
Human Resources Director	94%	0%
Human Resources Specialist	80%	67%
Facility Director	30%	0%
Clerical Enrollment Coordinator	85-95%	67%
Receptionist	100%	0%

Excessive Administrative Costs

Pursuant to 45 CFR § 1301.32(a)(1), allowable costs for developing and administering a Head Start program may not exceed 15 percent of the total approved costs of the program.⁴ Contrary to Federal regulations, BCAFS's GY 2009 administrative costs (\$689,893) represented 27 percent of its total approved costs (\$2,530,276).⁵ As a result, BCAFS exceeded the 15 percent limitation (\$379,541) on allowable FY 2009 development and administrative costs by 12 percent (\$310,352).

Accounting Records Not Reconciled

Pursuant to 45 CFR § 74.21(b) (1), Federal grantees are required to maintain financial systems that provide for accurate and complete reporting of grant-related financial data. BCAFS did not

³ We reviewed BCAFS's payroll drawdown schedules, cost allocation methodology, and the general ledger to determine the total dollar effect of BCAFS's excessive salary payments.

⁴ Head Start grantees may apply for a waiver to exceed the 15 percent requirement for up to 1 year. BCAFS did not apply for such a waiver.

⁵ To determine BCAFS's costs, we prepared a schedule of BCAFS's development and administrative costs based on its income statements for Head Start and Early Head Start as well as its functional allocation schedule.

reconcile its schedule of supporting expenditures to its general ledger for each of its drawdowns from ACF's electronic payment system. We attempted to reconcile without success. In addition, BCAFS did not maintain payment records identifying the course and allocation of funds drawn down. Therefore, we could not reconcile BCAFS's expenses or verify that BCAFS used Federal funds to pay for expenditures identified in its drawdown requests. As a result, we could not determine if BCAFS accurately reported its expenditures to ACF on its GY 2009 final Financial Status Report (FSR).

Time and Effort Reports Not Adequately Maintained

Pursuant to 45 CFR § 74.21(b) (6), Federal grantees must maintain written procedures for allocating shared costs to all benefitting programs. In addition, pursuant to OMB Circular A-122, Cost Principles for Non-Profit Organizations, App. B, § 8.m.(2)(a) (2 CFR pt. 230, App. B, § 8.m(2)(a)), costs for salaries must be supported by time and effort reports that reflect an after-the-fact determination of the actual activity of each grantee employee.

In accordance with Federal regulations, BCAFS's policies and procedures required that personnel activity reports be maintained for salaries that were allocated to more than one program. However, we found that BCAFS did not maintain personnel activity reports for all of its employees during our audit period.

Internal Financial Reporting Deficiencies

Pursuant to 45 CFR § 74.21(b) (4), Federal grantees are required to compare outlays with budget amounts for each award. Further, pursuant to 45 CFR § 1304.51(d) (3), Federal grantees such as BCAFS must ensure that financial reports are regularly provided to their governing bodies and policy groups.

Contrary to Federal regulations, BCAFS did not prepare budgeted-versus-actual reports to compare outlays with budget amounts for GY 2009. Consequently, BCAFS governing board never received this information. In addition, BCAFS did not regularly provide other monthly financial reports to its governing board either. According to BCAFS board meeting minutes, BCAFS monthly financial reports were discussed at only 2 of the 14 board meetings held from September 2007 through May 2009.⁶

Financial Status Report Not Supported

As a condition for receiving Head Start funds, grantees such as BCAFS are required to provide ACF with a final Financial Status Report (FSR) detailing expenditures paid during the grant period. In addition, pursuant to 45 CFR § 1301.20(a), Federal financial assistance for a Head Start program shall not exceed 80 percent of the total costs of the program.⁷ Grantees are required to obtain a minimum of 20 percent in non-Federal matching funds.

⁶ Generally, grantees' governing boards review financial reports on a monthly basis.

⁷ Pursuant to 45 CFR § 1301.20(c), Federal financial assistance for training and technical assistance activities shall be included in the Federal share in determining the total approved costs of the program.

Contrary to Federal requirements, BCAFS could not support the Federal share of net outlays, totaling \$2,530,276, reported on its GY 2009 SF-269, Financial Status Report to ACF. This amount should represent expenditures in BCAFS' general ledger. We tried to reconcile the amount to the general ledger without success. We found that the Federal share of net outlays exceeded the general ledger total by \$37,639. As a result, we could not determine if BCAFS accurately reported its expenditures to ACF on its GY 2009 final FSR.

Also, BCAFS reported \$591,609 of in-kind contributions in non-Federal matching costs on its GY 2009 FSR. However, BCAFS's general ledger only identified \$379,627 of in-kind contributions in non-Federal matching costs, leaving \$211,982 unsupported. In addition, for the non-Federal matching costs identified in the general ledger, BCAFS did not maintain all required supporting documents. Specifically, BCAFS did not maintain documents identifying the specific nature and actual hours of services provided (e.g., home visits and maintenance services). In addition, BCAFS did maintain documentation related to the valuation of in-kind matching contributions for a board member's services, which BCAFS valued at \$725 per hour although BCAFS's board of directors determined that \$52.20 per hour was reasonable. BCAFS could not support why it valued the board member's services \$672.80 per hour more (\$80,400 total) than what the board determined was a reasonable valuation. Without proper supporting documentation, BCAFS cannot ensure that it met its required non-Federal matching share.

FISCAL PERSONNEL ARE BONDED

Pursuant to 45 CFR § 1301.11, Head Start agencies shall make arrangements for bonding officials and employees authorized to disburse program funds. We determined that BCAFS's fiscal personnel are bonded. Specifically, BCAFS's insurance policy covers "employee theft" up to \$100,000. BCAFS's policy does not include additional comprehensive coverage.⁸

FUNDED ENROLLMENT LEVEL NOT MAINTAINED

Pursuant to 45 CFR § 1305.7(b), a Head Start grantee must maintain its funded enrollment level. When a program determines that a vacancy exists, no more than 30 calendar days may elapse before the vacancy is filled.⁹ BCAFS's Head Start funding was budgeted based on a funded enrollment level of 203. However, as of June 30, 2009, 161 students were enrolled in BCAFS's Head Start program. As a result, the program's actual enrollment was 21 percent less (42 students) than its funded enrollment level. BCAFS's independent auditors have reported this finding to BCAFS for the last three fiscal years.

⁸ In addition to "employee theft," comprehensive coverage offered by BCAFS's insurance company includes protection against "depositors forgery or alteration;" "theft, disappearance and destruction;" "robbery and safe burglary;" and "computer and funds transfer fraud." We note that pursuant to 45 CFR 74.21(d), Federal agencies may require adequate fidelity bond coverage where the grant recipient lacks sufficient coverage to protect the Federal Government's interest.

⁹ A program may elect not to fill a vacancy when 60 calendar days or less remain in the program's enrollment year.

CONCLUSION

Based on its current financial condition, BCAFS cannot ensure the continuing viability of the organization as a going concern unless it receives additional funding. Also, BCAFS's financial management system does not adequately manage and account for Federal funds. As a result, Federal Head Start funds were used to pay for non-Head Start expenditures, accounting records were not properly maintained and reconciled, internal financial reporting was deficient, and the GY 2009 financial status report included inaccurate data. Lastly, funded enrollment levels were not maintained.

RECOMMENDATION

In determining whether BCAFS should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing BCAFS's financial condition.

BROOKLYN CHILD AND FAMILY SERVICES, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In its comments on our draft report, BCAFS agreed with our findings concerning its financial viability and funded enrollment levels. BCAFS disagreed with some of our findings concerning its financial management system. However, BCAFS described steps it has taken or planned to take to adequately account for Federal funds.

BCAFS disagreed with our finding concerning its employee bonding policy and provided documentation concerning this policy. After reviewing the documentation, we determined that its fiscal employees were bonded and revised our finding accordingly. We have summarized BCAFS's comments, along with our response, below, and we have included those comments as the appendix.

Financial Viability

Brooklyn Child and Family Services, Inc., Comments

BCAFS stated that its "liquidity situation" was created by a decade of static funding and increases in cost of living and inflation. BCAFS also stated that its Board of Directors and management are "taking very drastic measures to remedy the situation," including measures to contain and address costs, raise funds, and identify new program sources and funding.

Office of Inspector General Response

We did not evaluate BCAFS's measures to address its financial viability. Therefore, we could not verify whether BCAFS will ensure the continuing viability of the organization as a going concern.

Financial Management System

Unallowable Fund Transfer

Brooklyn Child and Family Services, Inc., Comments

BCAFS disagreed with our finding that it made an unallowable fund transfer. BCAFSS stated that it maintained one bank account funded from Head Start and non-Head Start sources, and used a vouchering system to ensure that Federal funds were not spent on non-Federal expenditures. BCAFSS wrote that the accounting for the activity during our audit period “may appear to be unclear” but that it did not improperly use Head Start funds. BCAFSS indicated that it has instituted measures to prevent the likelihood of any such occurrences in the future.

Office of Inspector General Response

We maintain that Head Start funds should not be used to pay for non-Head Start expenditures, even if the funds are returned. Pursuant to ACF Information Memorandum ACYF-IM-HS-01-06, “Financial Management Issues in Head Start Programs Utilizing Other Sources of Funding,” issued March 8, 2001, “Head Start grantees may not transfer, even on a temporary basis, funds from Head Start to compensate for delayed or late payment from other funding sources unrelated to the Head Start Act and for costs that are not allowable in Head Start.” Contrary to this program guidance, BCAFSS transferred Head Start funds from its Head Start bank account to its transitional housing program bank account to cover non-Head Start expenditures.

Funds Used to Pay Prior Grant Year Expenditures

Brooklyn Child and Family Services, Inc., Comments

BCAFSS agreed with our finding that it used current grant funds to pay \$26,445 of prior grant year expenditures. However, BCAFSS stated that this amount represented the Head Start portion of GY 2008 unrecorded expenditures that should have been accrued at the end of GY 2008 and paid for from GY 2008 funds obligated in 2009. BCAFSS called the expenditures “an error in accounting.”

Office of Inspector General Response

BCAFSS’s justification for obligating GY 2008 expenditures to its GY 2009 funding is flawed. BCAFSS could not have included the questioned amount as an accrual in GY 2008 because BCAFSS expended its entire GY 2008 funding. Therefore, there were no GY 2008 funds available to pay for these expenditures. Pursuant to 45 CFR § 74.28, grant funds may only be used in the period for which the funds were awarded.

Expenses Paid in Excess of Allocated Amount

Brooklyn Child and Family Services, Inc., Comments

BCAFS disagreed with our finding that it used Head Start funds to pay salary costs in excess of amounts allocated to the Head Start program. BCAF S stated that its salary costs were within its approved budget and that the costs charged to these positions were in direct relationship to the actual benefits received by Head Start programs.

Office of Inspector General Response

Our finding is based on BCAF S's actual salary costs—not its budgeted salary costs. In addition, although a portion of these costs were related to the Head Start program, BCAF S used Head Start funds to pay for these salary costs, including those portions not related to the Head Start program.

Excessive Administrative Costs

Brooklyn Child and Family Services, Inc., Comments

BCAF S disagreed with our finding related to excessive administrative costs. BCAF S stated that its costs were in line with its GY 2009 budget and believes the excess costs in our finding include expenditures which BCAF S did not use as matching sources in determining its 15-percent limitation.

Office of Inspector General Response

We reviewed BCAF S's actual administrative personnel and non-personnel costs for developing and administering its Head Start program—not its budgeted costs. BCAF S exceeded the 15-percent limitation by 12 percent (\$310,352). This excess amount was paid with Head Start funds and cannot be considered matching costs.

Accounting Records Not Reconciled

Brooklyn Child and Family Services, Inc., Comments

BCAF S did not indicate concurrence or non-concurrence with our finding regarding its accounting records not being reconciled. However, BCAF S stated that it could not locate documentation to support its drawdowns during our review period because of “unprecedented turnover of personnel.”

Time and Effort Reports Not Maintained

Brooklyn Child and Family Services, Inc., Comments

BCAFS disagreed with our finding that it did not maintain time and effort reports. BCAF S stated that it implemented a time and effort reporting system in December 2008. BCAF S stated that the system is being appropriately followed.

Office of Inspector General Response

Based on BCAF S's comments, we revised our finding to indicate that its system was not fully implemented during our audit period. To ensure that its time and effort reporting system was in place since December 2008, we reviewed selective timesheets for pay periods ending December 12, 2008 and April 3, 2009. We found that BCAF S's system did not reflect an after-the-fact determination of the actual activity of the administrative staff.

Internal Financial Reporting Deficiencies

Brooklyn Child and Family Services, Inc., Comments

BCAF S stated that it has instituted measures to regularly report its finances to its governing board. The reports contain information on cash flows and cash management, and monthly budgeted-versus-actual expenses with explanations of variances and analysis to ensure that BCAF S's financial operations are in accordance with Federal and Head Start reporting guidelines.

Financial Status Report Not Supported

Brooklyn Child and Family Services, Inc., Comments

BCAF S disagreed with our finding that its general ledger did not support net outlays and in-kind contributions reported on its GY 2009 FSR. BCAF S stated that the disparity in net outlays was due to "the capability of BCAF S general system." BCAF S also stated that \$211,982 of unsupported in-kind contributions "represent other non-Federal funding sources used by BCAF S as a match" and that these funds are recorded in those sources' accounts. Therefore, BCAF S stated that its general ledger will not show a total of \$591,609 of in-kind contributions.

BCAF S did not comment on our finding regarding unsupported services and the valuation of its in-kind contributions.

Office of Inspector General Response

We cannot verify BCAF S's statement that the \$211,982 represented "other non-Federal funding sources" because BCAF S did not provide documentation for its reclassification of these matching funds.

Fiscal Personnel Bonded

Brooklyn Child and Family Services, Inc., Comments

BCAFS disagreed with our finding on fiscal personnel not bonded and provided a copy of its bonding policy.

Office of Inspector General Response

After reviewing the documentation, we determined that BCAFS's fiscal employees were bonded and revised our finding accordingly.

Funded Enrollment Level Not Maintained

Brooklyn Child and Family Services, Inc., Comments

BCAFS said that it has encountered lowered enrollment and has aggressively sought to address the problem. In addition, BCAFS said that it is confident that it will meet its target goal of full enrollment by February 1, 2010.

APPENDIX

APPENDIX: BROOKLYN CHILD AND FAMILY SERVICES, INC., COMMENTS

ac

Brooklyn Child and Family Services, Inc.

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Affiliate
The Rosa Parks Apartments

December 10, 2009

James P. Edert
Regional Inspector General for Audit Services
Office of Inspector general
Office of Audit Services
Jacob Javits Federal Building
26 Federal Plaza – Room 3900
New York, NY 10278

Re: Report Number – A02-09-02021

Dear Mr. Edert,

Brooklyn Child and Family Services (BCAFS), in accordance with the required 5-day response to the Department of Health & Human Services Office of the Inspector General's findings in relation to the above captioned report number, submits the detailed response for you to review.

Financial Viability

Finding:

Per your finding you indicated that, based upon BCAF's current financial condition BCAF's cannot ensure continuing viability of the organization as a going concern

Response:

The organization is funded in conjunction with certain State and City funding sources. Our funding from all these sources has been static over the past decade, although cost of living and inflation has been on the increase which has created our liquidity situation. The Board of Directors and Management consider the situation very serious and are taking very drastic measures to remedy the situation. Among various issues being worked on aggressively are cost containment and reduction, fund raising, identifying new program sources and funding to complement federal and other non-federal sources currently available.

Unallowable Costs

Finding:

BCAFS improperly used Head Start funds to pay for non- Head start expenditures.

Response:

BCAFS maintain one basic operating account for its program. Funds are transferred from Head Start sources and other non- Head Start sources into this account to discharge all agency obligations. BCAF's has been on a vouchering system since 2007. This means that the Agency only requests from federal sources agency expenses allocated to Head Start programs which will go directly to discharge those obligations. Therefore no additional federal funds remain to be spent on Non-federal expenditures. The accounting for the activity at the time may appear to be unclear but it was not improper use of Head Start funds to pay for non-Head Start

expenditures. However, to avoid the appearance of impropriety, Management has instituted measures to prevent the likelihood of any such occurrences in the future.

Funds Used to Pay Prior Grant Year Expenditures

Finding:

BCAFS used \$26,445 in Head Start Funds allocated for FY 2009 to pay for expenditures incurred in GY 2008.

Response:

The amount in question represented the Head Start portion of unrecorded, as of the end of GY 2008, expenditures for the 2008 GY. This should have been accrued at the end of GY 2008 and paid for from GY 2008 funds obligated in 2009. It was an error in accounting. BCAFSS has since updated its accounting systems, and is placing greater emphasis on the accurate recording of program activity, and has put measures in place to obligate funds in the appropriate grant year so as to prevent any such future occurrences.

Expenses Paid in Excess of Allocated Amount

Finding:

Contrary to Federal Regulations BCAFSS used \$129,912 of Head Start Funds to pay salary costs in excess of amounts allocated to the Head Start program:

Response:

BCAFSS salary costs for the period audited is within its approved budget for the period. By definition, pursuant to OMB Circular A-122, Cost Principles of Non-Profit Organizations, App. A, a cost is allocable to a Federal Award if it benefits both the award and other work and can be distributed in reasonable proportion to the benefits received. The cost charged to these positions is in direct relationship to the actual benefits received by Head Start programs. The Agency is supposed to match federal expenditures at a 20% rate in In-kind and Non-federal matching funds which the Agency has done. Payments on the personnel costs referred to in the report are from both Head Start and Non- Head Start funds because the work performed by said personnel directly benefited both programs. The Agency therefore does not agree with the finding.

Excessive Administrative Costs

Finding:

BCAFSS's GY 2009 administrative cost exceeded the 15 percent limitation on allowable FY 2009 development and administrative cost by 12 percent:

Response:

BCAFSS's budget for GY 2009 was in line with the 15 percent administrative limitation. The Agency operated with that budget proposal and monitored its administrative costs in GY 2009 to ensure that it was within the limitation. The Agency believes the excess percentages being reported is taking into consideration expenditures which the Agency was not using as matching sources in the determination of the 15 percent limitation. The Agency is therefore not in agreement with this finding.

Accounting Records Not Reconciled

Finding:

BCAFSS did not reconcile its schedule of supporting expenditures to its general ledger for each draw down from ACF electronic payment systems. In addition, BCAFSS did not maintain payment records identifying the course and allocation of funds drawn down:

Response:

BCAFSS maintains a general ledger system and processes all its accounting information according to prescribed accounting standards. GY 2009 was marked by unprecedented

turnover of personnel in the Fiscal Department as well as the Agency in general. Filing and control of some documentation which supports and reconciles BCAFS supporting schedules to its drawdown were not located at the time of the review. However, BCAFS maintains payment records identifying the cost and allocation of funds drawdown and charged to Head Start allowable and allocated expenditures for every month within the GY 2009. These were accurately reported on the SF- 269 filed by the Agency in GY 2009.

Time and Effort Reports Not Maintained

Finding:

BCAFS did not maintain personnel activity reports during our audit period. BCAFS officials said that they were in the process of implementing a time and effort system.

Response:

BCAFS has policies and procedures that require that personnel activity reports be maintained for salaries that are allocated to more than one program. BCAFS implemented a Time and Effort reporting system in December, 2008 that is being appropriately followed. Therefore, the Agency is not in agreement with this finding.

Internal Financial Reporting Deficiencies

Finding:

BCAFS did not prepare budgeted-versus-actual reports to compare outlays with budgeted amounts in GY 2009. Consequently, BCAFS governing board never received this information. In addition, BCAFS did not regularly provide other monthly financial reports to its governing board either.

Response:

BCAFS Board and Management have instituted measures on regular financial reporting to its governing bodies. This reporting consists of Cash flows and Cash Management, monthly expenditures compared to budgeted amount with explanation of variances and variance analysis to ensure that the Agency's financial operations are in accordance with Federal and Head Start reporting guidelines.

Financial Status Report Not Supported

Finding:

BCAFS could not support the Federal Share of net outlays totaling \$2,530,276, reported on its GY2009 SF-269, Financial Status Report to ACF. This should represent expenditures in BCAFS' general ledger. We found that the Federal share of net outlays exceeded the general ledger totals by \$37,639. As a result we could not determine if BCAFS accurately reported its expenditures to ACF on its GY2009 final FSR. Also, BCAFS reported \$591,609 in in-kind contributions and non-federal matching costs on its GY 2009 FSR. However, BCAFS's general ledger only identified \$379,627 of in-kind contributions in non-federal matching costs leaving \$211,982 unsupported.

Response:

The \$37,639 disparity between the general ledger and the SF- 269 was as a result of unobligated funds for GY 2009 that were not recorded in BCAF's general ledger due to the capability of BCAFS general system at the time. This type of problem has been corrected by investment in a more advanced and capable accounting system.

The \$379,627 is in relation to in-kind contribution. The \$211,982 represents other non-federal funding sources used by BCAFS as match which are recorded in those Source's accounts. BCAFS will thus not show a total of \$591,609 on its in-kind contribution section of the general ledger. Both sources will have to be considered in conjunction. The Agency is therefore not in agreement with this finding.

Fiscal Personnel Not Bonded

Finding:

BCAFS's fiscal personnel are not bonded:

Responses:

BCAFS fiscal employees are bonded. Attached please find the bonding policy.

Funded Enrollment Level not maintained

Finding:

BCAFS's Head Start funding was budgeted based on a funded enrollment level of 203. However, as of June 30, 2009, 161 students were enrolled in BCAF's Head Start Program. As a result the programs actual enrollment was 21% less than its funded enrollment level.

Response:

The areas serviced by some Head Start programs have seen changing demographics. Presently, parents have more options for their children during a time of decreased funding for programs. BCAF's has encountered lowered enrollment in specific program options and we are aggressively seeking to address this problem. As a result our enrollment numbers have significantly improved. We are ahead of our schedule as agreed to with the Head Start Office and we are confident that we will meet our target goal of full enrollment by February 1, 2010.

We understand that these areas have been identified based upon original review of GY 2009. During the time following, the agency has undergone a transition, some personnel changes and improvements. At this time we are extremely confident that we are moving in the right direction and will continue to meet the needs of the children, parents and families with your continued support.

Please feel free to contact me if you have any questions at (718) 330-0845.

Sincerely,



Karen Wharton
Chairperson, Board of Directors

CC: Ms. Jennifer Campayne, Finance Committee
Mr. Emmanuel Glasu, Director of Finance
Ms. Katya Rattray