

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ECONOMIC OPPORTUNITY
COMMISSION OF NASSAU
COUNTY, INC., CLAIMED
SOME UNALLOWABLE
HEAD START COSTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**James P. Edert
Regional Inspector General**

**September 2013
A-02-12-02003**

Office of Inspector General

<https://oig.hhs.gov>

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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

Economic Opportunity Commission of Nassau County, Inc., claimed \$879,876 for unallowable Head Start expenditures.

WHY WE DID THIS REVIEW

The Administration for Children and Families (ACF) requested that we determine if costs charged to Head Start by Economic Opportunity Commission of Nassau County, Inc. (EOC) were allowable for Federal reimbursement.

Our objective was to determine whether costs claimed by EOC were allowable under the terms of the grant and applicable Federal regulations.

BACKGROUND

The Head Start program provides grants to local public and private non-profit and for-profit agencies to promote the school readiness of children from low-income families by enhancing their cognitive, social, and emotional development. Within the U.S. Department of Health and Human Services, ACF administers the Head Start program.

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, provided an additional \$1 billion to expand the Head Start program. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

EOC is a nonprofit organization that operates Head Start programs that serve approximately 600 children at 7 centers throughout Nassau County, New York. EOC is primarily funded by Federal, State, and local government agencies. For the period August 1, 2010, through July 31, 2011, ACF awarded EOC \$6,955,243 in regular Head Start funds to operate its programs. In addition, ACF awarded EOC \$332,862 in Recovery Act funds to provide cost-of-living wage increases to its staff, improve staff education, and relocate one classroom.

Principles for determining the allowability of expenditures charged to Head Start grants are set forth in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*, incorporated by reference at 45 CFR section 74.27(a).

WHAT WE FOUND

The \$332,862 in EOC's Recovery Act costs that we reviewed were allowable. However, EOC claimed some regular Head Start costs that were unallowable under the terms of the grant and applicable Federal regulations. Of the \$6,955,243 in regular Head Start costs that we reviewed, EOC claimed \$6,075,367 in costs that were allowable. However, the remaining costs, totaling \$879,876, were unallowable. Specifically, EOC claimed salary and fringe benefit costs that were

not properly documented. This occurred because EOC did not update its policies and procedures for time and effort reporting when it implemented a new time and attendance system.

WHAT WE RECOMMEND

We recommend that ACF:

- require EOC to refund \$879,876 to the Federal Government and
- ensure that EOC updates its policies and procedures for time and effort reporting to ensure compliance with Federal requirements.

ECONOMIC OPPORTUNITY COMMISSION OF NASSAU COUNTY, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our initial draft report, EOC stated that it did not have enough funds to repay our recommended disallowance. EOC acknowledged that our finding related to effort reporting “reflects one significant weakness in our [EOC’s] internal control structure.” However, EOC stated that it has revised its procedures to ensure that it complies with personnel activity reporting requirements. EOC also provided what it described as Personnel Change Authorization (PCA) forms as documentation for the costs questioned in our initial draft report.

After reviewing EOC’s comments and additional documentation, we maintain that our findings and recommendations are valid. EOC’s PCA forms do not meet Federal requirements for documenting personnel activity. Specifically, the forms do not reflect after-the-fact determinations of employee activity.

ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

In an email to the OIG dated September 9, 2013, ACF stated that it concurred with our findings.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Administration for Children and Families (ACF) requested that we determine if costs charged to Head Start by Economic Opportunity Commission of Nassau County, Inc. (EOC) were allowable for Federal reimbursement.

OBJECTIVE

Our objective was to determine whether costs claimed by EOC were allowable under the terms of the grant and applicable Federal regulations.

BACKGROUND

Head Start Program

The Head Start program provides grants to local public and private non-profit and for-profit agencies to promote the school readiness of children from low-income families by enhancing their cognitive, social, and emotional development. Within the U.S. Department of Health and Human Services, ACF administers the Head Start program.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, provided an additional \$1 billion to expand the Head Start program. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

Economic Opportunity Commission of Nassau County, Inc.

EOC is a nonprofit organization that operates Head Start programs that serve approximately 600 children at 7 centers throughout Nassau County, New York. EOC is primarily funded by Federal, State, and local government agencies. For the period August 1, 2010, through July 31, 2011, ACF awarded EOC \$6,955,243 in regular Head Start funds to operate its programs. In addition, ACF awarded EOC \$332,862 in Recovery Act funds to provide cost-of-living wage increases to its staff, improve staff education, and relocate one classroom.

Federal Requirements

As a nonprofit organization in receipt of Federal funds, EOC must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations* (Office of Management and Budget Circular (OMB) A-122), incorporated by reference at 45 CFR section 74.27(a). Under these cost principles, for salaries and wages to be allowable for Federal

reimbursement, EOC must maintain personnel activity reports reflecting the actual activity of each employee working on Federal awards.

HOW WE CONDUCTED THIS REVIEW

Our audit covered \$7,288,105 in regular and Recovery Act-related Head Start funds expended by EOC. Specifically, our audit covered regular Head Start expenditures totaling \$6,955,243 that EOC charged during the period August 1, 2010 through July 31, 2011, and Recovery Act expenditures totaling \$332,862 provided to EOC during the period July 1, 2009, through September 30, 2010. For our review of EOC's regular Head Start expenditures, we reviewed a judgmental sample of salary and fringe benefit costs, consultant fees, rental expenses, utilities, maintenance, supplies, insurance, and asset purchases. We reviewed all of EOC's Recovery Act expenditures. Appendix A contains the details of our audit scope and methodology.

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.

FINDING

The \$332,862 in EOC's Recovery Act costs that we reviewed were allowable. However, EOC claimed some regular Head Start costs that were unallowable under the terms of the grant and applicable Federal regulations. Of the \$6,955,243 in regular Head Start costs that we reviewed, EOC claimed \$6,075,367 in costs that were allowable. However, the remaining costs, totaling \$879,876, were unallowable. Specifically, EOC claimed salary and fringe benefit costs that were not properly documented. This occurred because EOC did not update its policies and procedures for time and effort reporting when it implemented a new time and attendance system.

UNALLOWABLE SALARY AND FRINGE BENEFIT COSTS

For salaries and wages to be allowable for Federal reimbursement, grantees must maintain personnel activity reports reflecting the actual activity of each employee working on Federal awards. These after-the-fact determinations of employee activity must be signed by the employee or a supervisory official having firsthand knowledge of the employee's activities, be prepared at least monthly, coincide with one or more pay periods, and account for the total activity of the employee (2 CFR pt. 230, App. B, § 8.m).

EOC did not adequately document salary and fringe benefit costs totaling \$879,876 related to 78 of its 173 employees that reportedly worked on EOC's Head Start grant during our audit period. This occurred because EOC did not update its policies and procedures for time and effort reporting when it implemented a new time and attendance system in January 2010. Prior to its implementation of a new time and attendance system, EOC employees' time and attendance sheets included a personnel activity report section documenting their time spent on Federal awards. However, EOC's new system does not require time spent on Federal awards to be

documented on time and attendance sheets. Further, EOC did not modify its policies and procedures or provide other guidance to staff instructing them how to document their time spent on Federal awards. We found that staff at five of EOC's seven Head Start centers wrote how much time they spent on Federal awards on time and attendance sheets printed from EOC's new system. However, staff at the remaining two Head Start centers and at EOC's administrative office did not always record their time spent on Federal awards.

RECOMMENDATIONS

We recommend that ACF:

- require EOC to refund \$879,876 to the Federal Government and
- ensure that EOC updates its policies and procedures for time and effort reporting to ensure compliance with Federal requirements.

ECONOMIC OPPORTUNITY COMMISSION OF NASSAU COUNTY, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our initial draft report, EOC stated that it did not have enough funds to repay our recommended disallowance. EOC acknowledged that our finding related to effort reporting "reflects one significant weakness in our [EOC's] internal control structure."¹ However, EOC stated that it has revised its procedures to ensure that it complies with personnel activity reporting requirements.² EOC also provided what it described as Personnel Change Authorization (PCA) forms as documentation for the costs questioned in our initial draft report.

After reviewing EOC's comments and additional documentation, we maintain that our findings and recommendations are valid. EOC's PCA forms do not meet Federal requirements for documenting personnel activity. Specifically, the forms do not reflect after-the-fact determinations of employee activity.

EOC's comments are included as Appendix B.³

ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

In an email to the OIG dated September 9, 2013, ACF stated that it concurred with our findings.

¹ EOC also stated it did not agree that its policy and procedure manual was not followed. We did not make such an assertion in our initial draft report. Rather, we stated that EOC did not update its policies and procedures for time and effort reporting when it implemented a new time and attendance system.

² In its comments, EOC cited OMB Circular A-87. However, the cost principles detailed in the circular, *Cost Principles for State, Local, and Indian Tribal Governments*, are not applicable to nonprofit organizations. As we cited in our initial draft report, EOC is required to follow the cost principles detailed in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*.

³ We did not include the PCA forms because they contained personally identifiable information.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered \$7,288,105 in regular and Recovery Act-related Head Start funds expended by EOC. Specifically, our audit covered regular Head Start expenditures totaling \$6,955,243 that EOC charged during the period August 1, 2010 through July 31, 2011, and Recovery Act expenditures totaling \$332,862 provided to EOC during the period July 1, 2009, through September 30, 2010. We did not perform an overall assessment of EOC's internal control structure. Rather, we reviewed only the internal controls designed and implemented to identify, account for, and support the expenditures claimed for Federal reimbursement.

We performed our fieldwork at EOC's administrative office in Hempstead, New York, from February through June 2012.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed EOC's regular and Recovery Act Head Start grant applications and supporting documentation;
- interviewed EOC personnel to gain an understanding of EOC's accounting system, internal controls over Federal expenditures, and grant activities;
- reviewed EOC's financial policies and procedures;
- reviewed EOC's Head Start expenditures for allowability; and
- discussed our results with EOC officials.

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.

**APPENDIX B: ECONOMIC OPPORTUNITY COMMISSION
OF NASSAU COUNTY, INC., COMMENTS**

Iris A. Johnson
Chief Executive Officer



Anne J. Wells
Chairperson

**ECONOMIC OPPORTUNITY COMMISSION
OF NASSAU COUNTY, INC.**

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June 20, 2013

Mr. Glenn H. Richter, Audit Manager
Office of Inspector General
Office of Audit Services
U.S. Department of Health and Human Services
26 Federal Plaza Room 3900
New York, NY 10278

Report A-02-12-02003

Dear Mr. Richter:

Thank you for granting us an extension to reply to your report. The Economic Opportunity Commission of Nassau County, Inc. (EOC) is committed to be in compliance with all federal, local and state regulations. We appreciate the work and time your department spent in completing the audit of our agency.

We respectfully appeal that the audit report stay in draft format until our audit appeal has been finalized.

FINDING

The \$332,862 in EOC's Recovery Act cost that we reviewed were allowable. However, EOC claimed some regular Head Start costs that were unallowable under the terms of the grant and applicable Federal regulations. Of the \$6,955,243 in regular Head Start costs that we reviewed EOC claimed \$6,075,367 in costs that were allowable. However, the remaining costs, totaling \$879,876, were unallowable. Specifically, EOC claimed salary and fringe benefit costs that were not properly

documented. This occurred because EOC did not updated its policy and procedures for time and effort reporting when it implemented a new time and attendance system.

AGENCY RESPONSE

The finding, (as stated above), reflects one significant weakness in our internal control structure relating to effort reporting for some of our employees working in our agency.

We do agree with the requirements of Circular A-122 that require us to have effort reporting for staff. However, we are responding to the questioned items as follows:

- 1) We do not agree that the EOC policy and procedure manual was not followed— as that manual is not the overarching document to ensure compliance with OMB requirements;
- 2) While not totally applicable to nonprofit organizations, Circular A-87 Section 8H specifically excludes the requirement of monthly Personnel Activity Reports for non-allocated employees. Circular A-87 Section 8H states:
 - (h) Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.
 - (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
 - (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
 - (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

† Office of Inspector General Note: In our report, we refer to Circular A-122 as 2 CFR part 230, *Cost Principles for Non-Profit Organizations* (OMB Circular A-122).

The employment process at the EOC includes the completion of a Personnel Change Authorization, (PCA), form. The purpose of the PCA form is to:

- Document the funded program site/location at which each employee is assigned to work upon hire;
- Indicate the approval process for hire— each PCA is signed by administration and program managers;
- Designate pay allocations for Head Start employees

We have prepared a spreadsheet summarizing the questioned items from the auditor and have attached and referenced a completed Personnel Change Authorization form for every employee questioned.

The EOC completes an A-133 audit every year, and our auditors have not questioned our procedures, recommended a change, or advised us that our personnel effort documentation should be improved.

Please be advised that we are now in compliance and have implemented procedures that will place this agency's accounting practices in accordance with Circular A-122 standards.

Most Head Start agencies do not have significant fund balance amount. In fact as of July 31, 2012 our Unrestricted OPERATING fund balance is ZERO. This potential recoupment can cause:

- a. Lack of availability of credit markets
- b. Potential reduction of programs. Many New York State contracts require certain financial ratios to continue funding. Adding over \$850K to our liabilities will cause our quick ratio to fall below 1.0
- c. This liability could cause a significant reduction of any fund raising efforts. Donors like to pay for program not for past liabilities
- d. This liability could endanger the continuation of our agency, we just do not have the funds to pay this liability.

As CEO, I respectfully request a meeting with the United States Department of Health and Human Services to reconcile our appeal before any finalization is done. I urge the Office of the Inspector General to allow the EOC a one-time

accommodation to be in compliance with the Circular A-87 requirements to enable the EOC to continue to provide key services to the Nassau County population.

Sincerely,

A handwritten signature in black ink, appearing to read "Iris A. Johnson". The signature is fluid and cursive, with a large initial "I" and "J".

Iris A. Johnson, MHS
Chief Executive Officer

Enclosures