



July 28, 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 Heartland Opportunities for Partnership and
Empowerment Community Services, Inc. (A-03-09-00367)

The attached final report provides the results of our limited scope review at Heartland Opportunities for Partnership and Empowerment Community Services, Inc. This review was requested by the Administration for Children and Families, Office of Head Start, as part of its overall assessment of Head Start grantees that have applied for additional funding under the American Recovery and Reinvestment Act of 2009.

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>.

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-03-09-00367 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT HEARTLAND
OPPORTUNITIES FOR PARTNERSHIP AND
EMPOWERMENT COMMUNITY
SERVICES, INC.**



Daniel R. Levinson
Inspector General

July 2010
A-03-09-00367

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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THIS REPORT IS AVAILABLE TO THE PUBLIC
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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

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 & Human Services (HHS), the Administration for Children and Families (ACF) administers the Head Start program.

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. An additional \$356 million was allocated to award all Head Start grantees a nearly 5 percent cost-of-living increase and bolster training and technical assistance activities.

Heartland Opportunities for Partnership and Empowerment Community Services, Inc. (Heartland), a nonprofit agency, operates a Head Start program that provides education, health, and social services to low-income preschool children and their families at locations throughout central Virginia. Heartland also operates a home weatherization program, a job training program and a program to feed senior citizens.

Heartland is funded primarily through Federal and State government grants and was awarded ACF grant funds for Head Start totaling \$2,554,402 for calendar year 2009. In addition, Heartland was awarded Recovery Act grant funds for the budget period July 1, 2009, through September 30, 2010, totaling \$183,392 for cost-of-living increases and quality improvements.

OBJECTIVE

The objective of our limited scope review was to assess Heartland's capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations.

SUMMARY OF FINDINGS

Based on our assessment, we believe that, generally, Heartland has the capacity to manage and account for Federal funds and is capable of operating a Head Start program in accordance with Federal regulations. However we identified weaknesses relating to documentation of indirect costs and fixed asset records.

RECOMMENDATION

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

GRANTEE'S COMMENTS

In its comments on our draft report, Heartland described the action that it has taken to correct the weaknesses identified in this review and stated that these actions were verified during a follow-up review by ACF. Heartland's comments are included in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

Head Start Program

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 (HHS), the Administration for Children and Families (ACF) administers the Head Start program.

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

Under the American Recovery and Reinvestment Act of 2009, 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. An additional \$356 million was allocated to award all Head Start grantees a nearly 5 percent cost-of-living increase and bolster training and technical assistance activities.

Heartland Opportunities for Partnership and Empowerment Community Services, Inc.

Heartland Opportunities for Partnership and Empowerment Community Services, Inc. (Heartland), a nonprofit agency, operates a Head Start program that provides education, health, and social services to low-income preschool children and their families at locations throughout central Virginia. Heartland also operates a home weatherization program, a job training program and a program to feed senior citizens.

Heartland is funded primarily through Federal and State government grants and was awarded ACF grant funds for Head Start totaling \$2,554,402 for calendar year 2009. In addition, Heartland was awarded Recovery Act grant funds for the budget period July 1, 2009, through September 30, 2010, totaling \$183,392 for cost-of-living increases and quality improvements.

Federal Requirements

Nonprofit organizations that receive Head Start funds must comply with Federal cost principles found at 2 CFR part 230 (formerly Office of Management and Budget Circular A-122). Appendix B of the requirements (2 CFR pt. 230, App. B § 8.m(1)) states that charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on

documented payrolls. The distribution of salaries and wages to awards must be supported by personnel activity reports that reflect the distribution of activity of each employee whose compensation is charged in whole or in part directly to the award.

Pursuant to 45 CFR § 74.34(f), grantees are required to maintain equipment records that are accurate and include information stating whether the title vests in the recipient or the Federal Government. The records must also include information on how to calculate the percentage of HHS's share in the cost of the equipment.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our limited scope review was to assess Heartland's capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations.

Scope

We performed this review in response to a June 19, 2009, limited scope request from ACF. Therefore, we did not perform an overall assessment of Heartland's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was July 1, 2008, through June 30, 2009.

We performed our fieldwork at Heartland's administrative office in Farmville, Virginia, and at Heartland's Head Start classrooms in Lunenburg, Cumberland, and Buckingham, Virginia, during July 2009.

Methodology

To accomplish our objectives, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Heartland's Head Start application and supporting documentation;
- reviewed Federal Head Start grant award documentation to determine Heartland's total Head Start and Recovery Act Federal funding;
- interviewed Heartland's personnel to gain an understanding of its accounting system and its internal controls;
- reviewed Heartland's audited financial statements for Heartland's fiscal years 2006 through 2008;

- reviewed timesheets for a 3-month period for the Executive Director and the Transportation Manager;
- reviewed Heartland's fixed asset records;
- reviewed Heartland's Board of Directors composition, Board meeting minutes, and documentation provided to Board members during the meetings; and
- reviewed all of Heartland's required Notices of Federal Interest placards on modular units.

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.

FINDINGS AND RECOMMENDATION

Based on our assessment, we believe that, generally, Heartland has the capacity to manage and account for Federal funds and is capable of operating a Head Start program in accordance with Federal regulations. However, we identified weaknesses relating to documentation of indirect costs and fixed asset records.

DOCUMENTATION OF INDIRECT COSTS

Nonprofit organizations that receive Head Start funds must comply with Federal cost principles found at 2 CFR part 230 (formerly Office of Management and Budget Circular A-122). Appendix B of the Federal cost principles requires that charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls. The distribution of salaries and wages to awards must be supported by personnel activity reports that reflect the distribution of activity of each employee whose compensation is charged in whole or in part directly to the award (2 CFR pt. 230 App. B § 8.m(1)).

In addition, in order to support the allocation of indirect costs, the reports must be maintained for other employees whose work involves two or more functions or activities if a distribution of compensation between such functions or activities is needed in the determination of an organization's indirect cost rate(s). The reports must reflect an after-the-fact determination of the actual activity of each employee and must account for the total activity for which the employee is compensated and which is required in fulfillment of their obligations to the organization (2 CFR pt. 230 App. B § 8.m(2)).

Heartland did not adequately support its allocation of indirect costs for the portion of the Executive Director's salary charged to the Head Start program. During its 2008 fiscal year, Heartland charged \$34,439 of indirect costs to the Head Start program for the Executive Director's Salary. Heartland provided timesheets and calendars to support the time charged to

the program by the Executive Director. However, the timesheets generally had no time listed on them and the calendars had some start times, but no duration and generally no indication of any Head Start activities.

FIXED ASSET RECORDS

Pursuant to 45 CFR § 74.34(f), grantees are required to maintain equipment records that are accurate and include information stating whether the title vests in the recipient or the Federal Government. The records must also include information on how to calculate the percentage of HHS's share in the cost of the equipment.

Heartland's fixed asset records did not include information on whether the title to the listed fixed asset was vested in Heartland or the Federal Government. The fixed asset records also did not include information to calculate HHS's share of the equipment.

RECOMMENDATION

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

GRANTEE'S COMMENTS

In its comments on our draft report, Heartland described the action that it has taken to correct the weaknesses identified in this review and stated that these actions were verified during a follow-up review by ACF. Heartland's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: GRANTEE'S COMMENTS



"HOPE Lights The Way"

H.O.P.E.
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From: James Dyson Sr.
Chairman of the Board of Directors
HOPE Community Services, Inc.

Date: June 4, 2010

Reference: Audit Report # A-03-09-00367

I have reviewed the above referenced report. It was noted during the July 2009 audit that the agency Executive Director did not complete a Personnel Activity Report to support compensation in accordance with 2 CFR part. 230, Appendix B. It was also noted that the agency did not maintain equipment records that included information on how to calculate the percentage of Health and Human Services' share in the cost of the equipment.

These two items have been corrected and were verified during a follow-up program review by the Administration for Children and Families (ACF) 11/16/09 to 11/19/09. All agency personnel who work in one or more programs submit a Personnel Activity Report to support their compensation. Also, the equipment records have been updated to include information on how to calculate Health and Human Services' share in the cost of equipment.

James Dyson Sr.
Chairman of the Board of Directors
HOPE Community Services, Inc.