



December 10, 2009

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 of Eastern Catawba Cooperative Christian
Ministry Head Start Program (A-04-09-00064)

The attached final report provides the results of our limited scope review of Eastern Catawba Cooperative Christian Ministry – Head Start (the grantee), for the period July 1, 2008, through June 30, 2009. 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 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.

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

Based on our assessment, we believe the grantee is financially viable, 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, the grantee's financial management, procurement, and property internal control systems included weaknesses that diminished its capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations. These internal control weaknesses existed because the grantee did not comply with

Federal requirements and its Head Start financial policies, and it did not fully implement corrective actions included in its approved Quality Improvement Plan. As a result, Head Start grant funds for budget period July 1, 2008, through June 30, 2009, may have been at risk.

In written comments on our draft report, the grantee offered narrative comments and additional documentation as evidence to demonstrate that it had established controls in the areas where we reported control deficiencies. However, the grantee has a history of operating its program without adequate internal controls. We are unable to comment on the adequacy of the corrective actions the grantee indicates it has taken without conducting a review of these controls to test their reliability. Therefore, we have no basis to revise the findings in our draft report. The grantee needs to provide adequate assurance to ACF that it is capable of operating its program in a manner that protects Federal interests.

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

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

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-04-09-00064 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE REVIEW OF
EASTERN CATAWBA COOPERATIVE
CHRISTIAN MINISTRY HEAD START
PROGRAM**



Daniel R. Levinson
Inspector General

December 2009
A-04-09-00064

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 and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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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 P.L. 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 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 five percent cost-of-living increase and bolster training and technical assistance activities.

Eastern Catawba Cooperative Christian Ministry, Inc., a not-for-profit agency, operates a Head Start program that provides education, health, and social services to low-income preschool children and their families at locations throughout Newton and Hickory, in Catawba County, North Carolina. Eastern Catawba Cooperative Christian Ministry – Head Start (the grantee) also operates a food program.

The grantee is funded primarily through Federal and State government grants. During the period July 1, 2008, through June 30, 2009 (FY 2009), ACF directly provided grant funds to the grantee totaling \$1,126,310.

The grantee did not receive Recovery Act grant funding for FY 2009.

OBJECTIVE

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

SUMMARY OF FINDINGS

Based on our assessment, we believe the grantee is financially viable, 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, the grantee's financial management, procurement, and property internal control systems included weaknesses that diminished its capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations. These internal control weaknesses existed because the grantee did not comply with Federal requirements and its Head Start financial policies, and it did not fully implement corrective actions included in its approved Quality Improvement Plan. As a result, Head Start grant funds for budget period July 1, 2008, through June 30, 2009, may have been at risk.

RECOMMENDATION

In determining whether Eastern Catawba Cooperative Christian Ministry – Head Start should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing the grantee’s financial condition.

EASTERN CATAWBA COOPERATIVE CHRISTIAN MINISTRY HEAD START PROGRAM COMMENTS

The grantee’s response to our draft report offered narrative comments and additional documentation as evidence to demonstrate that it had established controls in the areas where we reported control deficiencies. We included the grantee’s narrative comments, without the additional documentation, as the Appendix. The grantee’s additional documentation contained sensitive information.

OFFICE OF INSPECTOR GENERAL RESPONSE

The grantee’s response offers evidence of internal controls that, if in place and followed, would improve the accountability and control over Federal funds. However, these controls were not evident during our review, and a prior ACF review found similar internal control weaknesses. The grantee has a history of operating its program without adequate internal controls. We are unable to comment on the adequacy of the corrective actions the grantee indicates it has taken without conducting a review of these controls to test their reliability. Therefore, we have no basis to revise the findings in our draft report. The grantee needs to provide adequate assurance to ACF that it is capable of operating its program in a manner that protects Federal interests.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Head Start Program.....	1
Eastern Catawba Cooperative Christian Ministry, Inc.	1
Requirements for Federal Grantees	1
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective.....	2
Scope.....	2
Methodology	3
FINDINGS AND RECOMMENDATIONS	3
FINANCIAL MANAGEMENT SYSTEM INTERNAL CONTROLS NEED IMPROVEMENT	4
Separation of Accounting Duties	4
Monitoring Credit Card Usage.....	4
Monitoring Cash Receipts.....	4
Maintaining Required Documentation for In-Kind Contributions	4
PROCUREMENT SYSTEM INTERNAL CONTROLS NEED IMPROVEMENT	5
Maintaining Required Documentation for Purchasing and Receiving	5
PROPERTY SYSTEM INTERNAL CONTROLS NEED IMPROVEMENT	6
Maintaining Inventory Records	6
Monitoring Inventory Procedures and Inventory Log	6
NONCOMPLIANCE WITH QUALITY IMPROVEMENT PLAN	6
RECOMMENDATION	7
EASTERN CATAWBA COOPERATIVE CHRISTIAN MINISTRY HEAD START PROGRAM COMMENTS	7
OFFICE OF INSPECTOR GENERAL RESPONSE	7
APPENDIX	
EASTERN CATAWBA COOPERATIVE CHRISTIAN MINISTRY HEAD START PROGRAM COMMENTS	

INTRODUCTION

BACKGROUND

Head Start Program

Pursuant to P.L. 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 program.

The Head Start program provides grants to local public and private non-profit 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 five percent cost-of-living increase and bolster training and technical assistance activities.

Eastern Catawba Cooperative Christian Ministry, Inc.

Eastern Catawba Cooperative Christian Ministry, Inc., a not-for-profit agency, operates a Head Start program under the legally separate entity Eastern Catawba Cooperative Christian Ministry – Head Start (the grantee) that provides education, health, and social services to low-income preschool children and their families at locations throughout Newton and Hickory, in Catawba County, North Carolina. The grantee also operates a food program.

The grantee is funded primarily through Federal and State government grants. During the period July 1, 2008, through June 30, 2009, ACF directly provided grant funds to the grantee totaling \$1,126,310.

The grantee did not receive Recovery Act grant funding for FY 2009.

Requirements for Federal Grantees

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

Federal regulations (45 CFR §§ 74.40 and 74.41 through 74.48) set forth standards for use by recipients in establishing procedures for the procurement of supplies and other expendable property, equipment, real property, and other services with Federal funds.

45 CFR § 74.34(f) lists the requirements for a grant recipient's property management system to include:

- (1) Equipment records shall be maintained accurately and shall include . . . :
 - (i) A description of the equipment;
 - (ii) Manufacturer's serial number, model number . . . other identification number;
 - (iii) Source of the equipment including the award number;
 - (iv) Whether title vests in the recipient or the Federal Government; . . .
 - (vii) Location and condition of the equipment . . . ;
- (4) recipient shall maintain a control system to insure adequate safeguards to prevent loss, damage, or theft of the equipment.

OMB Circular A-133 subpart C §_.300 states that the auditee shall:

. . . (f) Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with §_.315(b) and §_.315(c), respectively.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

This review was performed based upon a limited scope request from ACF. Therefore, we did not perform an overall assessment of the grantee's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective. Our review period was July 1, 2008, through June 30, 2009 (fiscal year (FY) 2009).

We performed our fieldwork at the grantee's office in Newton, North Carolina, from July 6 through July 16, 2009.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed the grantee's fiscal procedures related to accounting documentation and preparation of financial reports;
- obtained Federal grant award documentation to determine the grantee's Federal funding;
- reviewed the grantee's financial statements for FYs 2006 through 2009;¹
- reviewed the grantee's expense accounts and monthly financial statements;
- performed liquidity and stability analyses of the grantee's finances; and
- provided a summary of our findings to the grantee for comment.

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 RECOMMENDATIONS

Based on our assessment, we believe the grantee is financially viable, 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, the grantee's financial management, procurement, and property internal control systems included weaknesses that diminished its capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations. These internal control weaknesses existed because the grantee did not comply with Federal requirements and its Head Start financial policies, and it did not fully implement corrective actions included in its approved Quality Improvement Plan. As a result, Head Start grant funds for budget period July 1, 2008, through June 30, 2009, may have been at risk.

We identified the following financial management, procurement, and property system internal control weaknesses that need improvement.

¹We reviewed the grantee's audited financial statements for FYs 2006, 2007, and 2008, as well as the grantee's unaudited FY 2009 financial statement, which was not finalized during our fieldwork. The FYs 2006, 2007, and 2008 financial statements included the OMB Circular A-133 Single Audit Reports.

FINANCIAL MANAGEMENT SYSTEM INTERNAL CONTROLS NEED IMPROVEMENT

Separation of Accounting Duties

The grantee did not follow its policy for ensuring separation of duties in accounting. Contrary to Federal requirements at 45 CFR § 74.21 and its accounting policy, the Governing Board Treasurer, Executive Director, Head Start Director, and Administrative Assistant did not perform various accounting duties needed to maintain appropriate internal controls over accounting, fiscal operations, and fiscal staff. The Fiscal Officer controls most aspects of the financial management system, including performing cash drawdown transactions from the payment management system, reconciling bank accounts, entering and processing vendor invoices, preparing general journal entries, and preparing financial statements. The grantee's accounting policy states: "Due to the size of the organization, the fiscal staff consists of the Fiscal Officer. The Governing Board Treasurer, Executive Director, Head Start Director, and Administrative Assistant perform various accounting duties to maintain appropriate internal controls."

Monitoring Credit Card Usage

The grantee did not follow its policy for monitoring credit card usage. Contrary to Federal requirements at 45 CFR § 74.21 and its credit card policy, the grantee did not use the credit card log to monitor credit card usage. The Fiscal Officer stated that there was a credit card log, but she had not yet implemented it. The grantee's credit card policy states that credit cards will be logged out from the Fiscal Office to make approved purchases and logged back in after purchases. The policy also states that monthly credit card statements will be reconciled with the credit card log.

Monitoring Cash Receipts

The grantee did not follow its policy for monitoring cash receipts. Contrary to Federal requirements at 45 CFR § 74.21 and its cash receipts policy, the Head Start Director did not sign and date the Head Start bank statements. The grantee's cash receipts policy states that the bank statements will be received directly and unopened by the Executive Director and the Head Start Director. The Head Start Director and Executive Director will review the statements for checks issued, vendors paid, amounts paid, and endorsements. Any discrepancies will be immediately investigated. After the review, the Head Start Director will sign and date the bank statements and forward to the fiscal office for reconciliation. The bank statements for May 31 and June 30, 2009, did not provide evidence that the Head Start bank statements were received directly and reviewed by the Executive Director and the Head Start Director.

Maintaining Required Documentation for In-Kind Contributions

The grantee did not follow its policy for ensuring that all in-kind contributions were adequately documented, necessary, and reasonable for the proper and efficient accomplishment of Head Start objectives. Contrary to Federal requirements at 45 CFR § 74.21 and its in-kind contributions policy, the grantee did not consistently complete the in-kind forms. The grantee's

policy for in-kind contributions states that the in-kind forms should include the volunteer's name and address (if possible), date, complete description of volunteer duties or complete description of items donated (along with fair market value), signature of volunteer, and signature of staff coordinator.

Our review found that some in-kind forms omitted the purpose of the donated services, the basis for determining the valuation of donated services, volunteer information, the staff coordinator signature, verification, and a complete description of volunteer duties. For example, the grantee claimed \$6,958 for the value of donated service time associated with parent activities spent at home with their children from November 2008 through January 2009. However, the grantee did not document how it estimated the value of the donated service time for each activity completed. Furthermore, the grantee did not document how the donated services advanced the accomplishment of program objectives.

PROCUREMENT SYSTEM INTERNAL CONTROLS NEED IMPROVEMENT

Maintaining Required Documentation for Purchasing and Receiving

The grantee did not comply with Federal requirements at 45 CFR § 74.40 through 45 CFR § 74.48 and did not follow its policy for maintaining required documentation for purchasing and receiving. The grantee's procurement policy states that purchase orders will be prepared for all purchases, unless the vendor is recurring. Purchase orders will be pre-numbered and include the date, vendor, description, general ledger code, amount, purpose, date needed, signature of staff requesting goods, and approval of the purchase order if the purchase is allowed. Purchase orders will be filled out completely then submitted to the Head Start Director for approval. The Head Start Director will review the purchase order before approval to verify that the items requested are necessary and not duplicated. The original copy of the purchase order will then be given to the Fiscal Officer, a copy will be given to the staff member requesting the purchase, and a receiving copy will be given to the Administrative Assistant to compare with the order when received. The staff members making the requests will indicate receipt of the goods on their copies of the purchase orders.

The grantee did not consistently provide evidence for advance authorization of purchases. A review of the accounts payable history found several payment vouchers without the purchase orders. For example, vouchers number 5162, 5395, 5372, and 5269 were missing the purchase requisition forms. Moreover, a review of selected invoices that had purchase requisition forms found that the purchase requisition forms were not pre-numbered and were incomplete. For instance, some requisition forms were missing the general ledger code, amount, purpose, date needed, and signature of both the staff member requesting the goods and the approving official.

The grantee did not maintain controls for ensuring prior to payment that the correct items were received in the correct quantity and at the correct price. For example, the invoice attached to voucher 5247 indicated that 13 items were purchased; however, no evidence suggested the items on the invoice were either reviewed for accuracy or were actually received. These 13 items were shipped via UPS ground, but there was no supporting documentation, such as a receiving ticket or a packing slip.

PROPERTY SYSTEM INTERNAL CONTROLS NEED IMPROVEMENT

Maintaining Inventory Records

The grantee did not comply with Federal requirements at 45 CFR § 74.34(f) and did not follow its inventory policy for maintaining inventory records. The grantee's property management policy for inventory requires that the inventory log be maintained by the Transportation Manager, include consecutively assigned control tags, and list the condition of the equipment at the time of inventory. The Transportation Manager did not consistently tag inventoried items and did not list the condition of the assets. Of the 17 assets selected in our review, 5 were tagged with the incorrect control number and 3 were not tagged at all. In one instance, an employee had in her possession a notebook computer that was not tagged.

Monitoring Inventory Procedures and Inventory Log

The grantee did not comply with Federal requirements at 45 CFR § 74.34(f) and did not follow its inventory policy for monitoring the inventory procedures and inventory log. The grantee's property management policy for inventory states that once the physical inventory is complete, a copy of the inventory log will be given to the Fiscal Officer to reconcile with the general ledger accounts. Any discrepancies will be immediately investigated. The Fiscal Officer did not sufficiently monitor inventory procedures or the inventory log and, as a result, did not identify the aforementioned discrepancies in inventory records.

NONCOMPLIANCE WITH QUALITY IMPROVEMENT PLAN

Besides not following its own Head Start financial policies, the grantee did not fully comply with its QIP as required by OMB Circular A-133 subpart C. As part of its last onsite monitoring review, ACF reported various deficiencies to the grantee in its "Overview of Findings" dated January 15, 2009. The grantee submitted corrective "Actions to be Taken" as part of the QIP. The QIP stated in part:

- a. Financial policies and procedures will be reviewed and revised to assure inclusion of adequate internal controls, separation of duties, especially related to procurement process and credit card usage as well as audit findings
- d. Governing board will review, revise and implement procedures for oversight of fiscal operations and to support separation of duties by assigning specific responsibilities to specific board members as necessary
- f. Standardized forms for purchasing and ordering will be developed and implemented
- h. Fiscal procedures are monitored

Although the grantee reported to ACF that these corrective actions would be taken, we found certain internal control weaknesses which indicated that these corrective actions were not fully

implemented. The grantee's failure to take adequate corrective actions contributed to its internal control weaknesses and allowed previously identified deficiencies to continue. This lack of controls diminished the grantee's capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations.

RECOMMENDATION

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

EASTERN CATAWBA COOPERATIVE CHRISTIAN MINISTRY HEAD START PROGRAM COMMENTS

The grantee's response to our draft report offered narrative comments and additional documentation as evidence to demonstrate that the grantee had established controls in the areas where we reported control deficiencies. We included the grantee's narrative comments, without the additional documentation, as the Appendix. The grantee's additional documentation contained sensitive information.

OFFICE OF INSPECTOR GENERAL RESPONSE

The grantee's response offers evidence of internal controls, that if in place and followed, would improve the accountability and control over Federal funds. However, these controls were not evident during our review, and a prior ACF review found similar internal control weaknesses. The grantee has a history of operating its program without adequate internal controls. We are unable to comment on the adequacy of the corrective actions the grantee indicates it has taken without conducting a review of these controls to test their reliability. Therefore, we have no basis to revise the findings in our draft report. The grantee needs to provide adequate assurance to ACF that it is capable of operating its program in a manner that protects Federal interests.

APPENDIX

**APPENDIX: EASTERN CATAWBA COOPERATIVE CHRISTIAN MINISTRY HEAD
START PROGRAM COMMENTS**



**Eastern Catawba Cooperative Christian Ministry
Head Start Program**



Mission

"Providing Comprehensive Services to Meet the Needs of Eligible Children
And Their Families in Catawba County"

Tony E. Bunton
Executive Director

Mary A. Campbell
Head Start Director

Report Number: A-04-09-00064

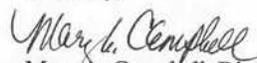
Peter J. Barbera
Regional Inspector General
For Audit Services

Dear Mr. Barbera,

Please find enclosed our written response and documentation to draft report entitled
"Results of Limited Scope Review at Eastern Catawba Cooperative Christian Ministry
Head Start for the Period July 1, 2008, through June 30, 2009."

If you need clarification or any other information please feel free to contact me or the
Fiscal Officer, [REDACTED].

Sincerely,


Mary A. Campbell, Director
ECCCM Head Start

Financial Management System Internal Controls Need Improvement

Separation of Accounting Duties

In response to the allegation that ECCCM Head Start did not follow its policy for ensuring separation of duties in accounting we would like to present the following documents as proof of this separation.

The Administrative Assistant is responsible for receiving and documenting all checks and cash received by the program. This information is recorded on a monthly cash receipts log and indicates the date received, the payer, the check# is applicable, the amount, and the date forwarded to the Fiscal Officer. The Administrative Assistant and the Fiscal Officer both sign off on this form. This procedure was implemented in February 2009 and we are attaching documents that support this statement. This documentation is included in appendix A.

The Administrative Assistant is also responsible for initiating purchase orders. A purchase order log is maintained listing the pre-numbered purchase orders, the date they are given to a requesting staff member, the date received, and the date reconciled. This log is signed by the Administrative Assistant and the requesting staff member. This is a new procedure that has been implemented to comply with our QIP. The review team did not review any of these documents because the implementation of this procedure began July 1, 2009. Due to the timing of their visit, no purchases had been initiated in the new fiscal year so there were no documents to review. Attached you will find documents to support this procedure from FY 2010. This documentation is included in Appendix B.

In an effort to further separate accounting duties a part time Data Entry/Accounting Clerk has been hired. It was explained to the audit team that this position would be in effect in FY 2010 but hiring had to wait until our new fiscal year had begun. This position was advertised to the public the last week of July 2009 and the position was filled on August 24, 2009. This new member of the accounting department will be responsible for processing payroll and accounts payable, reconciling bank statements, perform Data Entry and will ultimately serve as a support position for the ECCCM Head Start Fiscal Department. Attached you will find documentation to support our information. This documentation is included in appendix C.

The Head Start Director provides appropriate internal controls by reviewing and approving all financial transactions for the ECCCM Head Start program. The Executive Director and Head Start Director also monitor cash receipts and disbursements by reviewing the bank statements before they are given to the Fiscal Officer for reconciliation. They both also have access to an online banking account that allows them to access bank account information at any time they desire. This documentation is included in appendix D.

Monitoring Credit Card Usage

In response to the allegation that ECCCM Head Start did not follow its policy for credit card usage we present the following information and documents for support.

ECCCM Head Start received the results of their last onsite monitoring review on January 15, 2009. As a result of the deficiencies identified during this review a QIP was developed. The ECCCM Head Start program had until July 17, 2009 to fully comply with their QIP. The financial policies and procedures of ECCCM Head Start were revised in February 2009. In the revisions the policies stated that a credit card log would be maintained and compared to credit card statements on a monthly basis. This procedure was fully implemented on July 1, 2009 but again due to the timing of the visit there were not any purchases that had been made in FY 2010, so there were no documents for the team to review. We have attached documentation to show that this procedure has been implemented in our FY 2010. This documentation is included in appendix E.

Monitoring Cash Receipts

In response to the allegation that ECCCM Head Start did not follow its policy for monitoring cash receipts we present the following documents for review. The policy states that the Executive Director and Head Start Director will receive the bank statements directly and unopened. This policy has been in effect since February 2009 when our policies were revised. The Executive Director receives the statements directly and unopened at his office on East O Street in Newton, NC. The Head Start Director also receives the statements directly and unopened at the office on S. Ervin Avenue in Newton, NC. In April 2009, the Head Start Director, with recommendations made by the Fiscal Officer, requested that the bank statements be sent to the program via the online banking website. The intention of this change was so these statements could be directly imported into the computerized accounting system to aid in the reconciliation process. In June 2009, it was noted that the online statement could not be imported in the format required by the computerized accounting system so the Head Start Director requested that the bank statements be sent to the program the way they had been previously. It took the bank a month to convert back to the previous direction of mailing the statements so the June 2009 bank statement was delivered via the online banking website. The Executive Director and the Head Start Director have the login information so they were able to go online and view these statements prior to the Fiscal Officer reconciling the accounts. Since both the Executive Director and the Head Start Director have access to the online banking account this allows them to access bank account information at any time they desire and the information they receive is current and accurate and provided in real-time so there is no delay in receiving the information. This documentation is included in appendix D.

Maintaining Required Documentation for In-Kind Contributions

In response to the allegation that ECCCM Head Start did not follow its policy for ensuring that all in-kind contributions were adequately documented, necessary, and reasonable for the proper and efficient accomplishment of Head Start objectives we present the following information.

ECCCM has an in-kind valuation chart that is used for determining the value of donated services. These rates were used in the calculation of in-kind and while the forms may not have showed the actual calculation the rate that the in-kind was valued at could be located on this chart. For the activities that the audit team has referenced in their findings, it has come to our attention that these activities may not be allowable activities so they will no longer be used by the program. The amount of in-kind from these activities will be obtained from other sources. This documentation is included in appendix F.

Procurement System Internal Controls Need Improvement

Maintaining Required Documentation for Purchasing and Receiving

In response to the allegation that ECCCM Head Start did not follow its policy for maintaining required documentation for purchasing and receiving we present the following information and documents for review.

The ECCCM Head Start Financial Policies and Procedures were revised in February 2009 in order to comply with deficiencies identified in the last onsite monitoring review. The revised policies were submitted to the ACF regional office in February 2009 with the monthly QIP update. The vouchers that the audit team reference in their report are dated prior to the receipt of the letter from ACF with the results of their triennial review and prior to the revision of the Financial Policies. The dates of the vouchers are as follows:
Voucher #5269 to Discount School Supply – dated 11/24/2008
Voucher # 5395 to NCHSA – dated 01/26/09
Voucher # 5162 to Elan – dated 10/13/08
Voucher #5247 to Discount School Supply – dated 11/19/2008
Voucher #5372 to Atlanta Hilton and Towers - dated 01/26/09

If the audit team had reviewed documents from FY 2010 they would have seen that the policies had been fully implemented by the deadline of July 17, 2009 established by ACF. We are including documentation from FY 2010 that will show these policies have been fully implemented. This documentation is included in appendix B.

Property System Internal Controls Need Improvement

Maintaining Inventory Records & Maintaining Inventory Procedures and Inventory Log

In response to the allegation that ECCCM Head Start did not follow its policy for maintaining inventory records and monitoring the inventory procedures and inventory log we present the following information.

In the revised Financial Policies the responsibility of maintaining inventory logs was assigned to the Operations Officer (formerly Transportation Manager). The discrepancies in the inventory log had not been discovered because the Operations Officer had not completed an inventory since the responsibility had been assigned to her. In future inventories the control tags will be consecutive and the log will list the condition of the equipment at the time of the inventory and any discrepancies between the inventory log and the GL will be investigated immediately by the Fiscal Officer.

Noncompliance with Quality Improvement Plan

In response to the allegation that ECCCM Head Start did not fully comply with its QIP as required we present the following documents for review. We are enclosing a copy of the final QIP monthly report that was sent to the regional office on July 16, 2009. In this final report it outlines the work that was completed and documentation to prove the completion.

We feel that with the documentation provided in both the final QIP monthly report and the documents that we are submitting for your review you will find that ECCCM Head Start did fully comply with the requirements of our QIP. This information is included in appendix G.