



November 4, 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 at the City of Chicago, Department of Family and Support Services, for the Period December 1, 2005, Through July 31, 2009 (A-05-09-00088)

The attached final report provides the results of our limited scope review at the City of Chicago, Department of Family and Support Services (City), for the period December 1, 2005, through July 31, 2009. This review was requested by the U.S. Department of Health and Human Services, Administration for Children and Families (ACF).

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.

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 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.

The objective of our limited scope review was to assess whether the City has the capability to manage and account for Federal funds in accordance with Federal regulations.

Generally, the City has the capability to manage and account for Federal funds in accordance with Federal regulations. City administrative staff working on multiple activities, including the Head Start program, had their salaries and wages supported by semi-annual certifications.

Although the City follows 2 CFR part 225, Appendix B, § 8.h.(3) and utilizes semi-annual certifications, we would encourage the City to certify administrative staff's time charged to multiple funding sources on a monthly basis, in accordance with 2 CFR part 225, Appendix B, § 8.h.(4) and (5).

In its comments on our draft report, the City stated that a review and update of its policies and procedures concerning personnel costs charged to Federal awards for administrative staff was in order, but it did not agree with the reported finding that these costs were not in compliance with Federal requirements. After reviewing the City's comments, we acknowledge that the City follows 2 CFR part 225, Appendix B, § 8.h.(3) and utilizes certifications every six months when employees work solely on a single cost objective. We revised our report to acknowledge the City's use of a six month certification process.

In determining whether the City 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 City'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](mailto:Lori.Pilcher@oig.hhs.gov). Please refer to report number A-05-09-00088 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE REVIEW  
AT THE  
CITY OF CHICAGO,  
DEPARTMENT OF FAMILY AND  
SUPPORT SERVICES,  
FOR THE PERIOD  
DECEMBER 1, 2005, THROUGH  
JULY 31, 2009**



Daniel R. Levinson  
Inspector General

November 2009  
A-05-09-00088

# *Office of Inspector General*

<http://oig.hhs.gov>

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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:

## *Office of Audit Services*

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.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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# *Notices*

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## **THIS REPORT IS AVAILABLE TO THE PUBLIC**

at <http://oig.hhs.gov>

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 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.

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 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.

The City of Chicago (City) administers the Head Start program through the Chicago Department of Children and Youth Services, which was renamed the Department of Family and Support Services as of January 1, 2009. The City oversees Head Start operations by utilizing 64 delegate agencies that are contracted to provide services throughout Chicago, Illinois. For fiscal year (FY) 2009 (December 1, 2008, through November 30, 2009), the City reported 16,518 children enrolled in the Head Start program.

The City Head Start program is funded primarily through the Federal grant. During FY 2009, ACF awarded grant funds to the City totaling \$114,756,192 for the Head Start and Early Head Start programs. The City requested Recovery Act grant funding for FYs 2009 and 2010 totaling \$3,872,262 for Head Start program expansion and \$12,138,168 for Head Start and Early Head Start cost-of-living increases and quality improvement.

### **OBJECTIVE**

The objective of our limited scope review was to assess whether the City has the capability to manage and account for Federal funds in accordance with Federal regulations.

### **SUMMARY OF FINDINGS**

Generally, the City has the capability to manage and account for Federal funds in accordance with Federal regulations. City administrative staff working on multiple activities, including the Head Start program, had their salaries and wages supported by semi-annual certifications. Although the City follows 2 CFR part 225, Appendix B, § 8.h.(3) and utilizes semi-annual certifications, we would encourage the City to certify administrative staff's time charged to

multiple funding sources on a monthly basis, in accordance with 2 CFR part 225, Appendix B, § 8.h.(4) and (5).

## **RECOMMENDATIONS**

In determining whether the City 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 City's financial condition.

## **CITY OF CHICAGO COMMENTS**

In written comments on our draft report, the City stated that a review and update of its policies and procedures concerning personnel costs charged to Federal awards for administrative staff was in order, but it did not agree with the finding that these costs were not in compliance with Federal requirements. The City's comments are included in their entirety as the Appendix.

## **OIG RESPONSE**

After reviewing the City's comments, we acknowledge that the City follows 2 CFR part 225, Appendix B, § 8.h.(3) and utilizes certifications every six months when employees work solely on a single cost objective. Although we would encourage the City to certify administrative staff's time on a monthly basis, in accordance with 2 CFR part 225, Appendix B, § 8.h.(4) and (5), we have revised our report to acknowledge the City's use of a six month certification process.

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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, 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 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 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.

#### **The City of Chicago**

The City of Chicago (City) administers the Head Start program through the Chicago Department of Children and Youth Services, which was renamed the Department of Family and Support Services as of January 1, 2009. The City oversees Head Start operations by utilizing 64 delegate agencies that are contracted to provide services throughout Chicago, Illinois. For fiscal year (FY) 2009 (December 1, 2008, through November 30, 2009), the City reported 16,518 children enrolled in the Head Start program.

The City Head Start program is funded primarily through the Federal grant. During FY 2009, ACF awarded grant funds to the City totaling \$114,756,192 for the Head Start and Early Head Start programs. The City requested Recovery Act grant funding for FYs 2009 and 2010 totaling \$3,872,262 for Head Start program expansion and \$12,138,168 for Head Start and Early Head Start cost-of-living increases and quality improvement.

#### **Requirements for Federal Grantees**

Pursuant to 45 CFR § 92.20, governmental 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. In addition, pursuant to 45 CFR § 92.22, allowability of costs incurred by local governments is determined in accordance with the provisions of Office of Management and Budget (OMB) Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments.” (2 CFR part 225).

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

The objective of our limited scope review was to assess whether the City has the capability to manage and account for Federal funds in accordance with Federal regulations.

### **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 the City’s internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective. Our review period was December 2005 through July 2009.

We performed our field work at the Chicago Department of Family and Support Services and the Department of Finance, Comptroller’s Office, Special Accounting Division in Chicago, Illinois, during July 2009.

### **Methodology**

To accomplish our objective, we:

- consulted Federal sources to confirm that the City is not excluded from receiving Federal funds;
- reviewed applicable Federal laws and regulations pertaining to Federal grant awards and the Federal Head Start program;
- reviewed findings identified during the 2005, 2006, and 2007 OMB Circular A-133 audits of the City’s Head Start grant;
- reviewed the City’s Comprehensive Annual Financial Reports for 2005, 2006, and 2007;
- reviewed the findings related to the ACF Triennial review of the City’s Head Start program, dated October 27, 2008;

- reviewed the City’s policies and procedures related to its Head Start program;
- reviewed the City’s organizational chart;
- reviewed the salaries of the ten highest paid employees within the City’s Department of Family and Support Services; and
- performed additional audit steps to determine that the City had corrected prior audit findings identified by the A-133 audits and the ACF Triennial review.

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 finding and conclusions based on our audit objective.

### **FINDING AND RECOMMENDATION**

Generally, the City has the capability to manage and account for Federal funds in accordance with Federal regulations. City administrative staff working on multiple activities, including the Head Start program, had their salaries and wages supported by semi-annual certifications. Although the City follows 2 CFR part 225, Appendix B, § 8.h.(3) and utilizes semi-annual certifications, we would encourage the City to certify administrative staff’s time charged to multiple funding sources on a monthly basis, in accordance with 2 CFR part 225, Appendix B, § 8.h.(4) and (5).

### **FEDERAL CRITERIA**

Regulations (2 CFR part 225, Appendix B, § 8.h.(4) and (5)) state that when employees work on multiple activities or cost objectives, a distribution of their wages will be supported by personnel activity reports that must reflect an after-the-fact distribution of the actual activity, be prepared at least monthly, coincide with one or more pay periods, and be signed by the employee. Regulations (2 CFR part 225, Appendix B, § 8.h.(3)) state that 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 semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

### **PERSONNEL ACTIVITY REPORTS**

As part of our review to determine whether the City had sufficient support for salaries charged to the grant, we reviewed the personnel activity reports for two Head Start employees working on multiple grants. The two employees will earn \$232,692 and charge 65 percent of their time to the Head Start Program during FY 2009. We found that the two employees had their personnel

activity reports prepared semi-annually and signed by a supervisory official in compliance with 2 CFR part 225, Appendix B, § 8.h.(3).

## **RECOMMENDATION**

In determining whether the City 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 City's financial condition.

## **CITY OF CHICAGO COMMENTS**

In written comments on our draft report, the City stated that a review and update of its policies and procedures concerning personnel costs charged to Federal awards for administrative staff was in order, but it did not agree with the finding that these costs were not in compliance with Federal requirements. The City said that it follows a process that complies with 2 CFR part 225, Appendix B, § 8.h.(3) and utilizes certifications every six months in instances where employees "work solely on a single Federal award or cost objective." Additionally, the City stated that it does not agree with the assertion that OMB Circular A-87 requires all Department of Family and Support Services administrative employees to prepare monthly personnel activity reports signed by the employee. The City's comments are included in their entirety as the Appendix.

## **OIG RESPONSE**

After reviewing the City's comments, we acknowledge that the City follows 2 CFR part 225, Appendix B, § 8.h.(3) and utilizes certifications every six months when employees work solely on a single cost objective. Although we would encourage the City to certify administrative staff's time on a monthly basis, in accordance with 2 CFR part 225, Appendix B, § 8.h.(4) and (5), we have revised our report to acknowledge the City's use of a six month certification process.

# **APPENDIX**



City of Chicago  
Richard M. Daley, Mayor

Chicago Department of Family  
and Support Services

Mary Ellen Caron, Ph.D.  
Commissioner

Executive Office  
2nd Floor  
1615 West Chicago Avenue  
Chicago, Illinois 60622  
(312) 743-0300  
(312) 743-0400 (FAX)  
(312) 746-5455 (TTY)  
www.cityofchicago.org

## APPENDIX: AUDITEE COMMENTS

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September 23, 2009

Marc Gustafson  
Regional Inspector General  
for Audit Services  
Department of Health and Human Services  
Office of Audit Services  
233 North Michigan Avenue  
Chicago, Illinois 60601

Re: Draft Report Number A-05-09-00088

Dear Mr. Gustafson:

This letter constitutes the response of the City of Chicago's Department of Family and Support Services ("DFSS") to the above-referenced draft audit by your office. As discussed below, while we agree that a review and update of our policies and procedures concerning personnel costs charged to federal awards for DFSS administrative staff is in order, we do not agree with the finding of the draft report that DFSS "did not comply with Federal requirements" related to such costs and, therefore, ask that the finding be removed from the final report.

With respect to administrative personnel, DFSS follows a process laid out in the applicable cost principles (OMB Circular A-87) which allow state and local government grantees to utilize after-the-facts certifications every six months in instances where employees "work solely on a single Federal award or cost objective." Such certifications must be "signed by the employee or supervisory official having first hand knowledge of the work performed by the employee." 2 C.F.R. part 225, app. B, ¶ 8.h(3). Finally, the term "cost objective" is defined by the Circular as:

a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

2 C.F.R. part 225, app. A, B.11. In other words, staff dedicated to a single function such as administration can utilize the six-month certification process provided that the certifications are made after the work was performed and contain the proper signatures.

DFSS follows this well-established process. In accordance with procedures issued by the City's Department of Finance, administrative staff who are solely dedicated to one function (administration) prepare certifications on a semi-annual basis using the City's Form OMB-A87-1. These certifications are signed by the employee's supervisor and contain two



percentages. One percentage (100%) shows that the employee is solely dedicated to one cost objective. The other sets of percentages show how the cost of the employee will be allocated to various programs (currently, Head Start, Child Care and Workforce Investment) based on DFSS's cost allocation plan. That plan utilizes the actual number of direct employees in each function on a monthly basis as the allocation base. For example, as the number of Head Start employees rises and falls in proportion to the total number of direct employees, the cost of administration charged to Head Start likewise rises and falls. Utilizing these monthly staff counts, DFSS charges the cost of administrative personnel to its grants also on a monthly basis. DFSS believes that the number of employees in each program is a fair and equitable allocation base and is fully in compliance with OMB requirements.

With respect to the draft audit, DFSS does not agree with its assertion that OMB Circular A-87 requires that all DFSS administrative employees must prepare monthly personnel activity reports signed by the employee. We are firmly of the belief that our system complies with the requirements of A-87 laid out in this letter. Accordingly, we would ask that your office remove the finding from the final report. In that regard, while we believe we provided supporting documentation of our position during the audit, we would be happy to provide additional copies at your convenience.

Finally, we would like to thank your office for its hard work in reviewing our time and effort system and, while we do not agree with the report's conclusions, it has brought to our attention the need to update and clarify DFSS policies and procedures in this area. More particularly, we do agree that DFSS needs to more clearly state the policy about when it is and is not appropriate to utilize the six-month certification process. We will, therefore, be updating our policies appropriately. In addition, the City is in the process of enhancing its existing payroll system (CHIPPS) across all Departments. This enhancement will help to ensure that federal awards to the City will continue to be charged appropriate amounts for staff time. It is our understanding that the implementation of this enhancement should begin during the last quarter of 2010.

Should your office need any additional information or would like to discuss these issues further, please do not hesitate to contact me, or Managing Deputy Kenneth McGhee at (312)743-1658.

Sincerely,

Mary Ellen Caron

Mary Ellen Caron  
Commissioner