



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

November 12, 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 Detroit, Department of Human Services, for the Period November 1, 2006, Through August 31, 2009 (A-05-09-00090)

The attached final report provides the results of our limited scope review of the City of Detroit (City), for the period November 1, 2006, through August 31, 2009. This review was requested by the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), Office of Head Start.

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. However, employees working on multiple activities, including the Head Start program, completed personnel activity reports on an annual basis. As a result, the City did not comply with Federal requirements that personnel activity reports be prepared at least monthly.

In written comments on our draft report, the City stated that it agreed with our finding and implemented a policy, effective August 1, 2009, requiring all staff to complete personal activity reports bi-weekly to coincide with each pay period.

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 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-05-09-00090 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE REVIEW
AT THE CITY OF DETROIT,
DEPARTMENT OF HUMAN SERVICES,
FOR THE PERIOD
NOVEMBER 1, 2006, THROUGH
AUGUST 31, 2009**



Daniel R. Levinson
Inspector General

November 2009
A-05-09-00090

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:

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.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

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 Detroit (City) administers the Head Start program through the Detroit Department of Human Services. The City oversees Head Start operations by utilizing delegate agencies that are contracted to provide services to over 135 Head Start sites throughout Detroit, Michigan. For fiscal year (FY) 2009 (November 1, 2008, through October 31, 2009), the City reported 6,592 children enrolled in the Head Start program.

The City Head Start program is funded primarily through the Federal grant. The program does not receive direct cash assistance from either the City or the State of Michigan. During FY 2009, ACF awarded grant funds to the City totaling \$47,776,351 for the Head Start and Early Head Start programs. The City requested Recovery Act grant funding for FYs 2009 and 2010 totaling \$4,824,360 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 FINDING

Generally, the City has the capability to manage and account for Federal funds in accordance with Federal regulations. However, employees working on multiple activities, including the Head Start program, completed personnel activity reports on an annual basis. As a result, the City did not comply with Federal requirements that personnel activity reports be prepared at least monthly.

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 DETROIT COMMENTS

In written comments on our draft report, the City stated that it agreed with our finding and implemented a policy, effective August 1, 2009, requiring all staff to complete personal activity reports bi-weekly to coincide with each pay period. The City's comments are included as the Appendix.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INTRODUCTION | 1 |
| BACKGROUND | 1 |
| Head Start Program..... | 1 |
| The City of Detroit..... | 1 |
| Requirements for Federal Grantees | 1 |
| OBJECTIVE, SCOPE AND METHODOLOGY | 2 |
| Objective..... | 2 |
| Scope..... | 2 |
| Methodology..... | 2 |
| FINDING AND RECOMMENDATION | 3 |
| FEDERAL REQUIREMENT | 3 |
| PERSONNEL ACTIVITY REPORTS | 3 |
| RECOMMENDATION | 3 |
| CITY OF DETROIT COMMENTS | 4 |
| APPENDIX | |
| CITY OF DETROIT COMMENTS | |

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 Detroit

The City of Detroit (City) administers the Head Start program through the Detroit Department of Human Services. The City oversees Head Start operations by utilizing delegate agencies that are contracted to provide services to over 135 Head Start sites throughout Detroit, Michigan. For fiscal year (FY) 2009 (November 1, 2008, through October 31, 2009), the City reported 6,592 children enrolled in the Head Start program.

The City Head Start program is funded primarily through the Federal grant. The program does not receive direct cash assistance from either the City or the State of Michigan. During FY 2009, ACF awarded grant funds to the City totaling \$47,776,351 for the Head Start and Early Head Start programs. The City requested Recovery Act grant funding for FYs 2009 and 2010 totaling \$4,824,360 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 follow applicable Office of Management and Budget (OMB) cost

principles, agency program regulations, and the terms of grant and agreements in determining the reasonableness, allowability, and allocability of costs. Grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. Grantees are also required to compare actual expenditures or outlays with budgeted amounts for each grant. Effective control and accountability must be maintained for all grant cash, real and personal property, and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely 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 November 1, 2006, through August 31, 2009.

We performed our field work at the City Department of Human Services office in Detroit, Michigan, during July 2009.

Methodology

To accomplish our audit objective, we:

- consulted with Federal sources to confirm that the City is not excluded from receiving Federal funds;
- reviewed the Head Start grant findings identified in the City’s 2004, 2005, and 2006 OMB Circular A-133 audits and the 2005, 2006, and 2007 Head Start grant award audits;
- reviewed the City’s quarterly Fiscal Monitoring Evaluation Reports for 2006, 2007, 2008 for two delegate agencies;
- reviewed the findings related to the October 31, 2007 ACF Triennial review of the Head Start program;
- reviewed the City’s policies and procedures related to the Head Start program;

- reviewed the City’s organizational chart;
- reviewed applicable Federal laws and regulations pertaining to Federal grant awards and the Federal Head Start program; and
- performed additional audit steps to determine that the City had corrected prior audit findings identified by the A-133 audits, Head Start grant award 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. However, employees working on multiple activities, including the Head Start program, completed personnel activity reports on an annual basis. As a result, the City did not comply with Federal requirements that personnel activity reports be prepared at least monthly.

FEDERAL REQUIREMENT

Regulations (2 CFR part 225, Appendix B, section 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 which must be prepared at least monthly and must coincide with one or more pay periods.

PERSONNEL ACTIVITY REPORTS

To determine whether the City had sufficient support for salaries and wages charged to the grant, we reviewed the personnel activity reports for 19 Head Start employees working on multiple activities. The 19 employees, on average, earned more than \$50,000 annually and charged 27 percent of their time to the Head Start program in FY 2009. We found that 19 Head Start employees working on multiple activities completed personnel activity reports annually at the end of the grant year. Therefore, the City did not comply with Federal requirements that personnel activity reports be prepared at least monthly.

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 DETROIT COMMENTS

In written comments on our draft report, the City stated that it agreed with our finding and implemented a policy, effective August 1, 2009, requiring all staff to complete personal activity reports bi-weekly to coincide with each pay period. The City's comments are included as the Appendix.

APPENDIX



CITY OF DETROIT
DEPARTMENT OF HUMAN SERVICES

5031 GRANDY STREET
DETROIT, MICHIGAN 48211
PHONE 313-852-5609
FAX 313-852-4837

September 23, 2009

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

Re: Report Number: A-05-09-00090
Limited Scope Review of the City of Detroit, Department of Human Services
For the Period November 1, 2006, Through August 31, 2009

Dear Mr. Gustafson:

Below please find the management response of the City of Detroit, Department of Human Services to the finding included in your draft report dated September 11, 2009.

FINDING:

We found that 19 Head Start employees working on multiple activities completed personnel activity reports annually at the end of the grant year. Therefore, the City did not comply with Federal requirements that personnel activity reports be prepared at least monthly.

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.

MANAGEMENT RESPONSE:

The City of Detroit, Department of Human Services' management is in agreement with the finding noted above. Although the department has consistently captured time allocation of staff by program activity, as of August 1, 2009 the Department has implemented a policy requiring all staff to complete personal activity reports bi-weekly: which coincides with each pay period. This policy implementation will place the City of Detroit, Department of Human Services in compliance with the Federal requirement of



OMB Circular A-87, Attachment B, section 8.h.(4) and (5); which states that “when employees work on multiple activities or cost objectives, a distribution of their wages will be supported by personnel activity reports which must be prepared at least monthly and must coincide with one or more pay periods.”

If you have any questions, please contact Rose Holt, Manager of Accounting at (313) 887- 1034 or Coraleen Rawls, General Manager at (313) 887-1023.

Sincerely,

Shenetta L. Coleman
Executive Director

Cc: Coraleen J. Rawls, City of Detroit DHS General Manager
Rose Holt, Manager II, City of Detroit DHS Accounting
Virginia Burns-Saleem, Manager II, City of Detroit DHS Head Start
Sheila Washington-Bond, City of Detroit DHS Planning
Mike Barton, OIG-USHHS Audit Manager